

**Sandwell Metropolitan Borough Council**

**17 January 2017**

**Budget 2017/18 to 2019/20**  
**(Key Decision Ref. No. SMBC/1685)**

**1. Summary Statement**

- 1.1 This report informs Members of the 2017-18 provisional Local Government Finance Settlement announced by the Secretary of State for Communities and Local Government on 15<sup>th</sup> December 2016. 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 2017 following the final settlement announcement.
- 1.2 Sandwell MBC will be taking part in the 100% Business Rates retention pilot. However, the figures issued as part of the provisional settlement are still based on the 50% Business Rates retention model. It is anticipated that the final settlement figures will be based on the 100% Business Rates retention pilot.
- 1.3 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 2017-18 budget plan. The provisional settlement is based on acceptance of the Government's multi-year funding offer for 2017/18 to 2019/20 that was accepted by the S151 Officer on behalf of the Council in October 2016.
- 1.4 Despite earlier indications there has been no easing of the central government austerity programme.

**Provisional Settlement**

- 1.5 The provisional local government finance settlement was issued on 15<sup>th</sup> December 2016. The key headlines include:

- The creation of a new Adult Social Care grant (from reduced New Homes Bonus funding as a result of revised calculation method)
- Relaxing of referendum rules so that authorities can increase the Adult Social Care Precept by 3% per year in 2017/18 and 2018/19 instead of three 2% increases from 2017/18 to 2019/20. The total increase over the three years cannot exceed 6%.

1.6 The government have announced national figures for Core Spending Power for the next 3 years. These figures, in which the size of the overall funding cut is reduced by an assumption that Council Tax will increase by 1.99% (Excluding the Adult Social Care Council Tax Precept) in each year, are shown in table 1:

	<b>16-17 £m</b>	<b>17-18 £m</b>	<b>18-19 £m</b>	<b>19-20 £m</b>
Settlement Funding Assessment	18,601.5	16,632.4	15,598.8	14,584.3
Council Tax	22,858.5	23,789.7	24,760.7	25,773.5
Council Tax for Adult Social Care	381.8	814.2	1,289.6	1,811.5
Council Tax £5 Referendum Principle	7.0	19.4	31.7	44.0
Better Care Fund	0.0	105.0	825.0	1,500.0
New Homes Bonus	1,485.0	1,251.9	938.0	900.0
Rural Services Grant	80.5	65.0	50.0	65.0
Transition Grant	0.0	150.0	150.0	0.0
Adult Social Care Support Grant	0.0	241.1	0.0	0.0
<b>Core Spending Power</b>	<b>43,564.2</b>	<b>43,068.6</b>	<b>43,493.8</b>	<b>44,678.3</b>

Nationally total funding across the spending review period will increase by 0.4%, with an assumption that all Councils will agree to implement the full Council Tax increase to fund cost pressures in Adult Social Care.

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

	<b>16-17 £m</b>	<b>17-18 £m</b>	<b>18-19 £m</b>	<b>19-20 £m</b>
Settlement Funding Assessment	160.6	148.3	141.6	135.2
Council Tax	83.8	87.4	91.1	95.0
Council Tax for Adult Social Care	1.6	3.5	5.5	7.7
Better Care Fund	0.0	2.4	10.8	17.9
New Homes Bonus	6.8	5.3	3.8	3.7
Rural Services Grant	0.0	0.0	0.0	0.0
Adult Social Care Support Grant	0.0	1.9	0.0	0.0
<b>Core Spending Power</b>	<b>252.8</b>	<b>248.7</b>	<b>252.8</b>	<b>259.5</b>

Sandwell's total funding across the spending review period from 2015/16 will reduce by 1.2%, 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 11.06% (£28.8m).

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

	<b>16-17 £m</b>	<b>17-18 £m</b>	<b>18-19 £m</b>	<b>19-20 £m</b>
Revenue Support Grant	67.42	53.28	43.52	33.66
NDR Baseline	48.13	43.38	44.78	46.37
Business Rates Top-up	45.00	51.65	53.31	55.21
<b>Total</b>	<b>160.55</b>	<b>148.31</b>	<b>141.61</b>	<b>135.23</b>

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.

1.9 A revaluation of all commercial property comes into place from 1<sup>st</sup> April 2017. The government is also reducing the small business rates multiplier. It is estimated that this will reduce the gross collectable rates for the authority by £5.02m. The government have indicated that the changes

resulting from the revaluation will be adjusted by using the tariff and top-up system and will be fiscally neutral 'as far as is practicable'. The provisional settlement detailed in this report includes an increase in the top up grant of £5.765m.

- 1.10 Cabinet on 7<sup>th</sup> December 2016 considered officers' estimates of the NDR Baseline for 2017/18 (based on 100% Business Rates retention). The latest position as set out in Table 4 (adjusted to reflect 50% retention in line with the provisional settlement information) show an estimated NDR Baseline for SMBC of £45.5m which is £2.1m above the national funding assumptions.

<b>Table 4: Estimated Business Rates 2017/18</b>		
	<b>£m (100%)</b>	<b>£m (50%)</b>
Business Rates 2017/18	92.8	92.8
Central Government share (0%/50%)	0	46.4
WM Fire & Rescue Authority share (1%)	0.9	0.9
<b>Retained by Sandwell MBC (99%/49%)</b>	<b>91.9</b>	<b>45.5</b>

- 1.11 However, the total Business Rates baseline plus Top-Up are approximately £2.6m less than was anticipated in the 2016/17 Medium Term Financial Strategy. This is because of a combination of a failure to deliver the planned growth in the Business Rates baseline and the impact of the extension of small business rate relief. The figures presented in this report assume that the loss of funding arising from the extension of small business rate relief will be compensated for by an additional section 31 grant.

### **Council Tax**

- 1.12 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% 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 of this is that Local Authorities who do not 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.

1.13 The Medium Term Financial Strategy approved by Council in March 2016 contained an assumption that Council Tax would increase by 3.99% pa, which is within the referendum threshold and includes the 2% flexibility announced for those Local Authorities that deliver Adult Social Care services.

1.14 The 2017/18 provisional settlement includes more flexibility for Local Authorities to bring forward the increase in Council Tax, to cover Adult Social Care costs, by implementing a 3% increase in 2017/18 and/or 2018/19 instead. However, the total increase across 2017/18 to 2019/20 must still not exceed 6%. The following conditions are attached to the 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**

1.15 The Education Services Grant (ESG) will cease from September 2017. Transitional funding of £1.051m has been allocated to Sandwell to cover the period April 2017 to August 2017.

1.16 The Retained Duties element of the ESG (£0.830m) has been rolled into the Schools Block Dedicated Schools Grant and the local authority is currently in the process of consulting schools about retaining this funding centrally.

1.17 The school funding settlement was announced on 20<sup>th</sup> December 2016 and confirmed that Sandwell's total DSG grant allocation for 2017/18 is £305.57m before academies recoupment. This is broken down into 3 blocks: -

- **Schools Block**

The Schools Block Unit of Funding for Sandwell is £4,826.44. Pupil numbers per the October 2016 census were 51,053 equating to a total Schools Block DSG allocation of £246.40m. The funding for academies will be deducted from this total once the school funding formula has been calculated.

- **Early Years Block**

The total Early Years Block allocation is £21.98m and is made up of the following allocations: -

- Universal entitlement 3 and 4 year olds = £15.71m
- Additional entitlement 3 and 4 years olds of eligible working parents = £1.71m
- Funding for disadvantaged 2 year olds = £4.19m
- Early Years Pupil Premium = £0.27m
- Early Years Disability Access Fund = £0.09m

- **High Needs Block**

The High Needs Block is £37.19m after deductions for allocations paid directly by the EFA to academies.

The government is currently consulting on proposals for a National Funding Formula which will be implemented from 2018/19.

## **New Homes Bonus and Adult Social Care Grant**

- 1.18 Provisional 2017-18 allocations of New Homes Bonus were announced by DCLG on 15<sup>th</sup> December 2016; a total of £1.227bn for English local authorities which has been funded primarily through the top slicing of overall funding totals. Sandwell will receive £5.3m of New Homes Bonus in 2017-18.
- 1.19 This is a reduction of £1.57m compared to the amount expected per the Medium Term Financial Strategy for 2016/17. However, the national reduction in the New Homes Bonus funding has been used to create an Adult Social Care grant for 2017/18. Sandwell will receive £1.86m through this grant therefore the overall impact of this and the reduced New Homes Bonus is additional funding of approximately £0.3m.

## **Projected Sandwell Expenditure**

- 1.20 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.
- 1.21 The preliminary budget allocations for the next 3 financial years includes the following budget assumptions which will be contained in the medium term financial strategy (MTFS) 2017-18 to 2019-20, to be presented to Cabinet in February 2017.

**Table 5: Corporate Budgetary Parameters**

	<b>17-18</b>	<b>18-19</b>	<b>19-20</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Pay Award	1.0	1.0	1.0
General Inflation	1.0	1.0	1.0
Supplies Inflation	0.0	1.0	1.0
Contractual Commitments	0.0	1.0	1.0
Fuel – Gas	2.0	2.0	3.0
Fuel – Electricity	2.0	2.0	3.0
Income – Fees & Charges	2.3	2.0	2.0
Income - Other	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 2017-18 to 2019-20**

- 1.22 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 3 years.
- 1.23 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. 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).
- 1.24 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**

- 1.25 Indicative funding for 2017-18 to 2019-20 was announced as part of the provisional settlement.
- 1.26 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 15<sup>th</sup> December 2016;
  - Retained Business Rates are as per the 2017-18 estimates presented to Cabinet on 7<sup>th</sup> December 2016 increased by CPI thereafter;
  - Business Rates Top Up is as per the provisional settlement;
  - Council Tax increases of 1.99% in each year plus a precept of 3% 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**

	<b>16-17 £m</b>	<b>17-18 £m</b>	<b>18-19 £m</b>	<b>19-20 £m</b>
RSG	67.425	53.276	43.523	33.655
Business Rates	51.700	45.472	47.064	48.570
Business Rates Top-up	45.002	51.652	53.314	55.210
Council Tax	83.836	87.098	89.719	99.857
Adult Social Care CT	1.644	4.320	7.220	0.00
<b>Total</b>	<b>249.607</b>	<b>241.818</b>	<b>240.840</b>	<b>237.292</b>

- 1.27 Table 7 compares the projected net revenue expenditure to the forecast Council Funding included above in Table 6. Detailed plans are already in place to deliver a balanced budget in 2017/18 and it will now be necessary to devise projects to deliver the remaining £16.661m of savings required by 2019/20.

**Table 7 - Comparison of forecast revenue expenditure compared to the forecast funding with Adult Social Care precept**

	<b>16-17 £m</b>	<b>17-18 £m</b>	<b>18-19 £m</b>	<b>19-20 £m</b>
Forecast Expenditure	249.607	241.818	250.809	253.953
Forecast Funding	249.607	241.818	240.840	237.292
<b>Cumulative Surplus / (Shortfall)</b>	<b>0.000</b>	<b>0.000</b>	<b>(9.969)</b>	<b>(16.661)</b>
<b>Annual Shortfall</b>	<b>0.000</b>	<b>0.000</b>	<b>(9.969)</b>	<b>(6.692)</b>

### **Equalities Impact Assessment (EIA)**

- 1.28 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.
- 1.29 The detailed EIA will be presented to Cabinet in February 2017 together with detailed budget proposals before recommendations to Council in March 2017.

## **Housing Revenue Account**

- 1.30 The business plan and financial envelope for the Housing Revenue Account will be presented alongside the Directorate Business Plans to Cabinet in February 2017.

### **Balances**

- 1.31 The Council's free balances at 31 March 2016, after taking account of service related carry forwards, earmarked items and contributions to capital expenditure, amounted to £12.141m. 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.
- 1.32 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 2017-18 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 3 years and resultant revenue debt charges;
  - Prudent provisions for general reserves.

- 2.3 That shops and garages are appropriated from the HRA to the General Fund.
- 2.4 That the Facing the Future programme continues to develop projects to address projected shortfall of £16.661m across 2018-19 to 2019-20.
- 2.5 That the proposed Directorate net revenue target budgets for 2017-18 to 2019-20 detailed in Appendix A.
- 2.6 That Chief Officers submit Service Business Plans to Cabinet in February 2017 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 2017-18 to 2019-20**

6.1 In last year's Spending Review the Local Government Minister announced details of a provisional 4-year local government finance settlement and in February 2016 published the 4 year offer to Councils. 97% of councils have taken up the offer by publishing their long term efficiency plan. On 15 December 2016 the department published a consultation that confirms the second year of this 4 year offer for Councils covering the financial years 2017/18 to 2019/20. The headlines included in the latest provisional settlement are:

- The biggest headlines of the settlement have been the creation of an Adult Social Care Grant and the relaxation of the referendum rules concerning the adult Social Care precept so as to allow authorities to rise to a 6% increase by 2019-20 in two 3% increases rather than three 2% increases. The Adult Social Care grant allocates funding according to the Social Care needs formula and is financed from a reduced New Homes Bonus allocation.

- Increasing the Social Care Precept (SCP) is at the option of the authority. The regulations making up the settlement cover only 2017-18, but it is the stated intention of Government to permit authorities to introduce up to a 3% precept in 2017-18 and/or 2018/19 with 2019-20 bringing the aggregate over the three years to 6%, subject to the final year being a maximum of 2%. The figures for the SCP in Core Spending Power continue to assume a rise of 2% per annum up to 2019-20, as does the distribution of the Improved Better Care Grant.
- The proposals for the core principle of Council Tax, a referendum cap of 2%, continue into 2017-18.
- In relation to the New Homes Bonus, the Government has decided to follow its proposed plan namely:
  - To reduce the number of years for which legacy payments are made from 6 years to 5 years in 2017-18 and then to 4 years from 2018-19; and
  - To introduce a baseline for housing growth, set at an initial baseline of 0.4% of the council tax base for 2017-18. Growth below this level in each authority will not qualify for Bonus allocations. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.
  - From 2018-19, Government will consider withholding new Homes Bonus payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth as well as withholding payments for homes that are built following an appeal.
  - As the proposals reflect the policy proposed in the earlier technical consultation, they have not resulted in any changes to illustrative NHB allocations in Comprehensive Spending Review other than in 2017-18.

- Authority level Settlement Funding Allocations now include provisional adjustments to Top-up and Tariff for the impact of the 2017 revaluation.
- 100% Business Rate Pilots. The intention is that the GLA, Greater Manchester and Liverpool City Region, together with Cornwall Council and the councils in the combined authority areas of West of England and West Midlands will pilot 100% rates retention, starting in 2017-18. The pilots will be without detriment to the resources that would have been available to individual authorities under the current local government finance regime (with any “detriment” payments funded from outside the Settlement). There is no other new information regarding the 100% pilots. The detail of the changes to Tariff and Top-ups are currently being finalised with the pilot areas and DCLG’s intention is to confirm them in the final Settlement. Before the beginning of the financial year, the Government will also make changes to secondary legislation to confirm the new shares of business rates income and safety-net thresholds.

## **Sandwell Forecast**

- 6.2 The starting position for the 2017-18 to 2019-20 budget strategy is the approved 2016-17 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 3 financial years is shown in table 7 in the summary. Appendix A provides forecast expenditure requirements for each Directorate.

- 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 2017. Details of the Fire and Civil Defence and Police and Crime Commissioner precepts will also not be finalised until February 2017.
- 6.6 The provisional 1-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 2017.

### **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 2017.

### **Housing Revenue Account**

- 6.9 The business plan and financial envelope for the Housing Revenue Account will be presented to Cabinet in February 2017 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 2016-17 outturn position will be presented to Cabinet in February 2017 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 2017-18 and an offer to councils for future years (and supporting documents) – DCLG consultation document