

Sandwell Metropolitan Borough Council

7 March 2017

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

1 Summary Statement

- 1.1 This report details the 2017/18 net expenditure level for the council based on the final Local Government financial settlement received on 20 February 2017 and seeks approval for the resultant Council Tax for 2017/18. Details of the proposed service expenditure levels for 2017/18 together with the amount required to be raised from Council Tax are provided in the General Fund Summary 2017/18 Appendix A1.
- 1.2 Sandwell MBC will be taking part in the 100% Business Rates retention pilot and DCLG have now published the 2017/18 figures as part of the final settlement. However, the figures issued by DCLG for 2018/19 and 2019/20 are still based on the old 50% scheme. The 2017/18 figure represents an increase in funding of £2.1m from the provisional settlement, as a result of the windfall from joining the business rates pilot. A share of this will have to be passed on to the Combined Authority but it is uncertain at present as to the amount. An equivalent sum of £2.1m has therefore been included within contingency until the figure is known. These changes are reflected within the budget forecasts for both expenditure and funding and a balanced budget continues to be achieved and reported for 2017/18.
- 1.3 Directorate business plans for the three years 2017/18 – 2019/20 were reported to Cabinet on 8 February 2017. 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 15 February 2017 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 I 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 4.48% in the Police precept, and an increase of 1.98% in the Fire precept.

Council Tax

- 1.7 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.
- 1.8 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.
- 1.9 The 2017/18 final 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 2017-18. 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 2017-18, 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.

1.10 It is therefore proposed to increase Council Tax by 4.99% as follows:

	%
Sandwell MBC	1.99
Adult Social Care Precept	3.00
Total	4.99

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 £91.418m, which represents an increase of 4.99% in relation to the 2017/18 level of Council Tax which at Band D sets a Council Tax of £1,283.64.

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 £1,457.33. 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. 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. However, from 2020/21 Revenue Support Grant funding will cease, but instead Local Authorities will be allowed to retain a 100% of their Business Rates.
- 1.14 However, under a Scheme announced as part of the final settlement the Government has agreed to introduce a number of 100% Business Rate Pilots which includes the councils in the combined authority areas of West of England and West Midlands will pilot 100% rates retention, starting in 2017-18. The 2017/18 budget incorporates this change.
- The pilots are 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).
- The Settlement Funding Assessment shown in Table 1 identifies the level of funding that will be received over the next three years:

Table 1	17-18 £m	18-19 £m	19-20 £m
Revenue Support Grant	0.000	43.520	33.660
NDR Baseline	87.650	44.780	46.370
Business Rates Top-up	60.660	53.310	55.210
Total	148.310	141.610	134.240

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. The Baseline Need will fluctuate dependent upon actual business rates collected.

1.15 Cabinet on 7 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 2 show an estimated NDR Baseline for SMBC of £91.90m.

	£m
Business Rates 2017/18 (100%)	92.800
WM Fire & Rescue Authority share (1%)	0.900
Retained by Sandwell MBC (99%)	91.900

1.16 A revaluation of all commercial property comes into place from 1 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'.

Schools and Children's Services Funding

1.17 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.

1.18 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.

1.19 The school funding settlement was announced on 20th 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

1.20 Final 2017-18 allocations of New Homes Bonus were announced as part of the settlement; 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 £5.0m of New Homes Bonus in 2017-18.

1.21 This is a reduction of £1.80m 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 and therefore the overall impact is fiscally neutral.

Projected Sandwell Expenditure

1.22 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.

1.23 The preliminary budget allocations for the next 3 financial years includes the following budget assumptions which are contained in the medium term financial strategy (MTFS) 2017-18 to 2019-20.

	17-18	18-19	19-20
	%	%	%
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

1.24 Passenger Transport Executive (PTE) / environmental agency levies are based on up to date soundings.

1.25 Provision for the anticipated supported borrowing requirements over the 3 years and resultant revenue debt charges;

1.26 Prudent provisions for general and earmarked reserves.

Housing Revenue Account (HRA)

- 1.27 The HRA was included as a separate business plan presented to Cabinet on 8 February 2017 and received by the Budget and Corporate Services Scrutiny Board on 15 February 2017.
- 1.28 The account operates fully within its own resources meeting expenditure from income obtained from tenants' rents. The 2017/18 rent income is based on decisions taken by Cabinet on 7 December 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.
- 1.29 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 8 February 2017. The programme remains affordable for 2017/18.

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

- 1.30 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.
- 1.31 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.

1.32 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 C 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 D.

1.33 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 £93.128m of such schemes within the CFR as at 31 March 2016.

Capital Programme

1.34 The five year capital programme provided at Appendix D incorporates the capital review that was undertaken as at period 6 and reported to Cabinet on 16 November 2016 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.

1.35 In summary, the current capital programme commitments and available resources between 2017 and 2020 are:

Table 4: Capital Programme	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Approved Commitments	114.077	82.803	47.740	244.620
Resources	114.077	82.803	47.740	244.620

(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

1.36 The level of resources committed by the council for capital investment is significant. In the period 2016/17 – 2020/21 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 £405m. The effective use of these resources is intrinsic to the fulfilment of the strategic vision of both the council and its partners.

1.37 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 E.

1.38 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

- 1.39 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 F. The estimated General Fund reserve balance as at 31 March 2017 is £68.3m. (See Appendix F (A1).
- 1.40 After consideration of the council's Strategic Risks, the forecast level of free balances at the end of 2016/17 are likely to be £11.1m, representing a decrease of £1.0m from the £12.1m of free balances held at the end of 2015/16. This represents 4.67% of net operating budget and is at a level which is deemed to be adequate in the medium term.
- 1.41 The council's forecast earmarked reserves at the end of 2016/17 are likely to be in the region of £45.4m (currently £46.0m) and further details are contained in 7.16. This includes £17.5m 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 £11.7m of one-off balances earmarked to meet potential one-off expenditure identified as part of the budget risk assessment.
- 1.42 Reserves have also been earmarked to fund £11.9m of planned capital investment.
- 1.43 The indicative multi-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.

1.44 The movement in earmarked reserves does not impact on the level of Council Tax for 2017/18.

Expenditure Plans and Medium Term Financial Strategy(MTFS)

1.45 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. This is a key document and further details are contained in Appendix G.

1.46 This budget report provides details of the council's expenditure plans for 2017/18 to 2019/20 which form the basis of the council's medium term financial strategy.

1.47 The finance settlement is the fifth 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 three year Settlement Funding Assessment for 2017/18 to 2019/20 is shown above in Table 1.

1.48 The forecast expenditure and funding for the three years 2017/18 to 2019/20 together with the cumulative funding shortfall to 2019/20 of £16.661m is detailed in Table 5 below.

1.49 Table 5 - Comparison of forecast revenue expenditure compared to the forecast funding over the MTFS.

Table 5	17-18 £m	18-19 £m	19-20 £m
Forecast Expenditure	240.236	250.809	253.953
Forecast Funding	240.236	240.840	237.292
Cumulative Surplus / (Shortfall)	0	(9.969)	(16.661)
Annual Shortfall	0	(9.969)	(6.692)

Forecast Funding for Sandwell 2017/18 to 2019/20

- 1.50 Funding for 2017-18 to 2019-20 was announced as part of the final settlement.
- 1.51 Table 6 shows the current funding levels forecast for the council over the next 3 years. These are based on the following assumptions:
- 1.52 The Revenue Support Grant for 2018/19 and 2019/20 is based on the final settlement announced on 20 February 2017;
- 1.53 Retained Business Rates based on 100% retention are as per the 2017-18 estimates presented to Cabinet on 7 December 2016 increased by RPI thereafter;
- 1.54 Assumed growth in rateable value of £1m in 2017/18.
- 1.55 Business Rates Top Up is as per the final settlement;
- 1.56 Council Tax increases of 1.99% in each year plus a precept of 3% for Adult Social Care in 2017/18 and 2018/19;
- 1.57 Council Tax Collection Rate of 99%;
- 1.58 Assumed growth in Council Tax base of 1% pa.

Table 6	17-18 £m	18-19 £m	19-20 £m
RSG	0	43.523	33.655
Business Rates	91.872	47.064	48.570
Business Rates Top-up	60.663	53.314	55.210
Council Tax	87.098	89.719	99.857
Adult Social Care CT	4.320	7.220	0
Collection Fund Deficit	(3.717)	0	0
Total	240.236	240.840	237.292

- 1.59 The major planned outcomes for the resources provided were contained within the service business plans presented to Cabinet on 8 February 2017. These forecast outcomes will be robustly monitored and formally reported via the council's quarterly monitoring processes.

1.60 The proposed budget strategy for 2017/18 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.

Local Government Superannuation Scheme

1.61 The Council's arrangements with the West Midlands Pension Fund have been subject to a recent triennial actuarial review which sets out contributions due over the period 2017/18 to 2019/20. Discussions have been held with the Fund and its actuary over the course of the last year and final agreement has been reached on employer contributions to the Fund for the next three years.

Discussions also took place over the easing of increases in contributions in respect of future accrual to aid the council's budget setting over the three year period. Contributions due to the Fund are increasing over the period and the monetary amount is expected to continue to increase thereafter to ensure the Fund deficit is eroded and the cost of pensions is met efficiently over the long term. The funding level and contribution requirements from 2020/21 will be reviewed again in 2019.

The agreed payments have been built into this budget and the authority's medium term financial plans.

Equalities Assessment (EA)

1.62 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.

1.63 A corporate EA is attached at Appendix H 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 and the forecast reserves for 2016/17 be noted;
- 2) That the Council's General Fund budget for 2017/18 as detailed in Appendix A to the report now submitted, be approved;
- 3) That the provisional budgets for 2017/18 to 2019/20 as outlined in Appendix A3 to the report now submitted, be approved;
- 4) That the Treasury Management & Investment Strategy, Minimum Revenue Provision policy together with Prudential Indicators outlined in Appendix C, be approved;
- 5) That the Capital Programme 2017/18 to 2019/20 as set out in Appendix D and the Capital Strategy set out in Appendix E to the report now submitted, be approved;
- 6) That the supporting information on the robustness of the budget process and adequacy of the council's reserves detailed in Appendix F to the report now submitted, be approved;
- 7) That the Medium Term Financial Strategy as outlined in Appendix G to the report now submitted, be approved;
- 8) That it be noted that the Cabinet meeting on the 7th December 2016 approved the amount of £71,217.34 as its Council Tax base for the year 2017/2018 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;

9) That the following amounts be calculated by the Council for the year 2017/2018 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; | £1,002,638,227 |
| (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; | £911,220,497 |
| (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; | £91,417,730 |
| (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; | £1,283.64 |
| (e) | Valuation Bands | |

	£
A	855.76
B	998.39
C	1,141.02
D	1,283.64
E	1,568.90
F	1,854.15
G	2,139.41
H	2,567.29

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;

- (10) That it be noted that for the year 2017/2018 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	38.09	77.70
B	44.44	90.65
C	50.79	103.60
D	57.14	116.55
E	69.84	142.45
F	82.53	168.35
G	95.23	194.25
H	114.28	233.10

- (11) 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 2017/2018 for each of the categories of dwellings shown below:-

Valuation Band	£
A	971.55
B	1,133.48
C	1,295.41
D	1,457.33
E	1,781.19
F	2,105.03
G	2,428.89
H	2,914.67

- (12) That the Chief Financial Officer be authorised to take any necessary action to collect revenues and disburse monies from the relevant accounts;

- (13) That the requirements of any relevant legislation, to consider reports as a consequence of the approval of the Council's Finances 2017/2018 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 H.

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 8 February 2017.

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**

2016/17 Provisional Outturn

7.1 The original budget (Net Borough Expenditure) for the council's services for 2016/17 amounted to £249.263m.

7.2 The revenue monitoring undertaken throughout the year and reported to Cabinet on 8 February 2017, identified a forecast surplus of £4.0m at a service level as a consequence of the implementation of savings proposals earlier. In addition, there is a projected surplus of £0.7m 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 2017/17 to 2019/20 Budget

2017/18 Revenue Budget

- 7.3 The report to Cabinet on 8 February 2017 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 3 financial years 2017/18 to 2019/20 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 £240.236m. (Net Borough Expenditure).
- 7.6 A summary of the General Fund expenditure for 2017/18 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 8 February 2017.

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. The latest Triennial review has been completed and the financial impact of the review on both the future service rates and the deficit recovery payments will be effective from 1 April 2017.

- 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.
- 7.10 The full impact of the Actuary recommended increase in future service contributions and deficit recovery payments are included in the budget projections. Sandwell, together with other metropolitan authorities in the West Midlands has agreed a stepped arrangement to meet these costs in order to ensure it is affordable over the medium term.
- 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 2016/17 is currently projected to be at £11.1m (4.67% 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 2016/17 closedown of accounts process.

Table 7: Specific Reserves & Provisions	
Specific Reserves:	£m
Housing Revenue Account	37.415
Schools	35.751
Insurance Fund	9.000
Other General Fund Reserves (See breakdown in Appendix F (A1))	11.089
Specific Reserves as at 31 March 2016	93.255

Specific Provisions:	£m
Insurance Provision	7.312
Collection Fund Provisions	1.054
Redundancy/Retirement Costs	1.175
Other Provisions	0.057
Specific Provisions as at 31 March 2016	9.598

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 2015/16 and the forecast earmarked reserves at the end of 2016/17 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).	21.644
Redundancies	8.000
National Living Wage	4.000
SIPS Redundancy Reserve	2.400
MMI	0.650
Jobs Promise	1.000
Dilapidations	1.000
Impress	1.000
Section 31 Grant	1.400
NHS Rate Relief	1.700
Other	3.263
Earmarked Reserves as at 31st March 2016	46.057
Estimated Movements 2015/16	
<i>Use of Earmarked Reserves</i>	
- Carry Forwards from 2015/16	(21.644)
- Redundancies	(1.100)
- NHS Rateable Relief	(1.700)
- National Living Wage	(2.000)
- Other	(2.560)
<i>Contribution to (from) Earmarked Reserves</i>	
- Carry Forwards into 2017/18	17.531
- Community Hubs	1.000
- Land Regeneration Fund	1.322
- General Projects Fund	4.000
- Other	4.467
Net Movement in 2016/17	(0.684)
Forecast Earmarked Reserves as at 31st March 2017	45.373

- 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 2016/17 (£11.118m) is deemed adequate by the council and the reasons are specified in Appendix F '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 2017/18 at £13.704m compared with the original levy in 2016/17 of £14.078m, a reduction of £0.374m.
- 7.20 The precepts for the West Midlands Police & Crime Commissioner and West Midlands Fire & Rescue Authority Budgets are detailed below:

Table 9: Precepts & Levies	Precept £m	Council Tax £	Increase %
West Midlands Police & Crime Commissioner	8.300	116.55	4.48
West Midlands Fire & Rescue Authority	4.069	57.14	1.98

Collection Fund and Council Tax 2017/18

- 7.21 The council meeting on 7 December 2016 agreed that the tax base for 2017/18 would be 71,217.34.
- 7.22 The anticipated deficit on the Collection Fund at the end of 2016/17 is £3.717m.

7.23 The amount that the council will raise in Council Tax in 2017/18 is shown in the table below:

Table 10: Council Tax		£m	£m
Total Expenditure			240.236
Less:	Revenue Support Grant	0	
	Retained Business Rates	91.872	
	Business Rates Top Up	60.663	
	Use of Balances	0	
	Collection Fund Deficit	(3.717)	148.818
	Council Tax		91.418

7.24 The total Council Tax that will be raised in 2017/18 including the Fire and Police precepts would therefore be:

Table 11: Council Tax Split:	£m
Sandwell MBC	91.418
West Midlands Police & Crime Commissioner	8.300
West Midlands Fire & Rescue Authority	4.069
Total	103.787

7.25 This would represent a Band D Council Tax for 2017/18 of £1,457.33, The percentage increases in Council Tax for the 3 constituent authorities are:

Table 12: Council Tax Increase	%
Sandwell MBC	4.99
West Midlands Police & Crime Commissioner	4.48
West Midlands Fire & Rescue Authority	1.98
Overall Council Tax Increase	4.83

A full analysis of the proposed Council Tax for 2017/18 for each band is attached as Appendix B.

Consultation with Non-Domestic Ratepayers

7.26 There will be a revaluation of commercial property effective from 1st April 2017. The provisional small business multiplier, applicable to those businesses eligible for Small Business Rate Relief, is set at 46.6p. The provisional standard multiplier, which includes the supplement to pay for Small Business Rate Relief, is set at 47.9p.

- 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 2017/18.
- 7.28 A meeting was held between representatives of non-domestic ratepayers and the Cabinet on 8 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 C 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 2017/18 to 2020/21 are provided at Appendix C.
- 7.33 The levels of borrowing are based on the capital programme outlined in Appendix D.

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 F 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 17 January 2017;
Minutes of Cabinet 8 February 2017;
The Local Government Act 2003;
CIPFA publication 'The Prudential Code'
The local government final settlement 2017/18 to 2019/20