

MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2019/20

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1 INTRODUCTION

- 1.1 Sandwell MBC continues to face an extremely challenging financial position with funding cuts to Local Government set to continue for the remainder of this Parliament. Despite earlier indications there has been no easing of the central government austerity programme.
- 1.2 The Medium Term Financial Strategy (MTFS) sets out how the council will structure and manage its finances now and in the future. The strategy provides a robust and consistent approach that places the council's finances on a sound and stable footing, whilst supporting our transformational 'Facing the Future' programme.
- 1.3 The 3 key objectives of the council's MTFS are to: -
 1. Ensure the council remains financially stable in the face of Central Government funding reductions.
 2. Protect front-line services to the people of Sandwell by transforming the way we deliver services and growing the funding we generate locally.
 3. Deliver a policy-led multi-year budget planning process that fully integrates revenue and capital resources.
- 1.4 At the time of writing, the final settlement has not been received. The figures in the MTFS are therefore taken from the provisional settlement announced in December 2016 and is based on the 50% Business Rates Retention Scheme (which includes the continuation of the Revenue Support Grant). However, Sandwell has agreed to be part of the 100% Business Rates Retention pilot from 2017/18 therefore these figures will change with the final settlement.
- 1.5 On 25 November 2015 the Chancellor announced a four-year plan to cut public spending by £20bn. Sandwell MBC is facing the equivalent of a cut in Revenue Support Grant funding of £48m by the end of the current Parliament. The MTFS will provide further details about how this figure has been calculated and how the 'Facing the Future' programme will address the shortfall while continuing to provide high quality services to the people of Sandwell.
- 1.6 The council operates a multi-year budget planning process that gives services the ability to manage budgets across financial years. Those services have delivered savings of £23m in 2015/16 and a further £24m of savings in 2016-17.
- 1.7 Key to this process is the decision to allow services to retain any budget surpluses that arise. This means that a service that is required to deliver savings across three financial years is able to restructure once, delivering savings earlier than required secure in the knowledge that any surpluses generated are retained by the service.

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- 1.8 This approach encourages sensible financial planning; avoids the traditional rush to spend money before the end of the financial year; provides greater security for staff; and helps to ensure that challenging savings targets are achieved.
- 1.9 Many services have delivered their 2017/18 savings early and, as a consequence, have generated surpluses in 2016/17 that will be retained and reinvested in front-line services.
- 1.10 Risk will be managed using our established best practice principles which are set out in the corporate risk management strategy. A proactive approach to the identification and management of risks and opportunities will be taken within the financial planning and budget monitoring process and updated regularly.
- 1.11 This will enable the council to:
- Achieve planned financial targets;
 - Achieve a high level of customer satisfaction in our service delivery;
 - Maintain a safe and supportive working environment for staff;
 - Enhance our reputation;
 - Maintain compliance with legal and regulatory framework
- 1.12 The Audit Committee governs risk management. Key risks are evaluated within regular monitoring reports to the Cabinet, Council and Senior Management Board. The Chief Finance Officer uses this risk assessment to inform decisions on the appropriate levels of general reserves, central contingency and specific reserves.
- 1.13 In determining actions required to ensure balanced budgets are prepared, Directors have undertaken an Equality Impact Assessment on all identified service changes and policy amendments.

2 NATIONAL POLICY & 2017-18 TO 2019-20 SETTLEMENT

Funding Settlement

- 2.1 This section sets out the details of the provisional Local Government Finance Settlement which was announced by the Secretary of State for Communities and Local Government on 15th 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.

Spending Power

- 2.2 Spending power or revenue spending power is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated council tax and business rate income, Revenue Support Grant and New Homes Bonus plus a number of government grants excluding those for education and policing.
- 2.3 The government has announced national figures for Core Spending Power for the next 4 years. These figures, in which the size of the overall funding cut is reduced by an assumption that Council Tax will increase by CPI in each year, are shown in table 1:

Table 1: Core Spending Power England				
	2016/17	2017/18	2018/19	2019/20
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	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	150.0	150.0	0.0	0.0
Adult Social Care Grant		241.1	0.0	0.0
Total	43,564.2	43,068.6	43,493.8	44,678.3

- 2.4 Nationally total funding across the spending review period will reduce 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.

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- 2.5 The government also announced figures showing the Core Spending Power for Sandwell, shown in Table 2: -

Table 2: Core Spending Power Sandwell				
	2016/17	2017/18	2018/19	2019/20
Settlement Funding Assessment	160.6	148.3	141.6	135.2
Council Tax	83.8	87.4	91.1	95.0
Council Tax 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
Adult Social Care Grant	0.0	1.9	0.0	0.0
Total	252.8	248.7	252.8	259.5

- 2.6 This shows Sandwell's total funding across the spending review period reducing 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).

Settlement Funding Assessment

- 2.7 The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant. Sandwell MBC will be participating in the 100% Business Rates Retention pilot as part of the West Midlands Combined Authority pool. This means that the authority will not actually receive any Revenue Support Grant but instead will retain all of the Business Rates generated (less the 1% share for West Midlands Fire Service).
- 2.8 The Settlement Funding Assessment for Sandwell is broken down in Table 3:

Table 3: Settlement Funding Assessment				
	2016/17	2017/18	2018/19	2019/20
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
Total	160.55	148.31	141.61	135.23

- 2.9 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.

Retail Price Index (RPI)

- 2.10 The Office for Budget Responsibility (OBR) published estimated RPI rates in November 2016: -

Table 4: RPI	%
2017/18	3.2
2018/19	3.5
2019/20	3.1

- 2.11 These are the percentages that have been used where reference is made in the MTFS to budget increases in line with RPI.
- 2.12 Section 3 sets out how the council's local funding projections differ from those announced by the DCLG above. It also details the estimated expenditure levels for the council over the period.

3 LOCAL CONTEXT AND PROJECTIONS

Reserves

The Sandwell MBC reserves policy is:

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

Forecast Revenue Funding Levels

3.1 Table 5 shows the current funding levels forecast for the council over the next 4 years.

Table 5: Forecast Funding Sandwell				
	2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2019/20 (£m)
RSG	67.4	53.3	43.5	33.7
Business Rates	51.7	45.5	47.1	48.6
Business Rates Top Up	45.0	51.7	53.3	55.2
Council Tax	83.8	87.1	89.7	92.4
Adult Social Care Precept	1.6	4.3	7.2	7.4
Total	249.6	241.8	240.8	237.3

- 3.2 These figures are based on the following (and on the 50% business rates retention scheme).

Revenue Support Grant (RSG)

- 3.3 Revenue Support Grant is the primary source of funding from central government in relation to non-schools revenue expenditure.
- 3.4 The Revenue Support Grant figures for all years are based on the provisional settlement announced on 15th December 2016.
- 3.5 The council will receive £53.276m in Revenue Support Grant for 2017-18 which is a reduction of £14.149m from 2016-17 levels. By 2019-20 the RSG will have reduced to £33.655m – a reduction of £48m which is equivalent to 60%.

Retained Business Rates

- 3.6 The business rate retention scheme was introduced in April 2013 and has reformed the way in which local government is funded. It provides a direct link between business rates growth and the amount of money local authorities have available to spend on local people and services. Under the business rates retention scheme, authorities keep up to half of the local business rates revenue as well as growth on the revenue that is generated in their area.
- 3.7 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.
- 3.8 The council has agreed to participate in the 100% Business Rates Retention pilot as part of the West Midlands Combined Authority. This means that the council will receive no Revenue Support Grant but will be able to retain all of the Business Rates collected (with 1% continuing to be paid to West Midlands Fire Service).
- 3.9 Cabinet on 7th December 2016 considered officers' estimates of the Non Domestic Rates (NDR) Baseline for 2016/17. The latest position as set out in Table 6 below shows an estimated NDR Baseline for SMBC of £45.5m which is £2.1m above the national funding assumptions. This figure has been used in the projected funding for 2017-18.

Table 6: Estimated Business Rates	50%	100%
Business Rates	92.8	92.8
Central Government 50%	46.4	0.0
Fire 1%	0.9	0.9
Retained by SMBC	45.5	91.9

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- 3.10 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.
- 3.11 A revaluation of all commercial property comes into place from 1st 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.
- 3.12 The estimates have been increased by RPI for future years.

Business Rates Top Up

- 3.13 Some local authorities collect significantly more business rates than others. In order to be equitable and to encourage enterprise in local authorities the rates retention scheme includes a system of top ups and tariffs.
- 3.14 Whether a local authority is a tariff or a top-up authority is determined by comparing each individual local authority's baseline funding level against its business rate baseline. A local authority must pay a tariff each year if its business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up each year if its business rate baseline is less than its baseline funding level.
- 3.15 The Business Rates Top Up figures in Table 5 for each year are as per the provisional DCLG settlement.

Council Tax

- 3.16 The amount of revenue a local authority needs to raise through council tax (its council tax requirement) is calculated by deducting any funding from reserves, income it expects to raise, and funding it will receive from the Government from its planned spending.
- 3.17 Each local authority then sets its basic amount of council tax (band D) at the level necessary to raise this amount, taking into account its likely collection rate.
- 3.18 The Council Tax figures in table 5 are based on the Council Tax base that was reported to Cabinet in December 2016 with an assumed growth in Council Tax base of 1% per annum thereafter.

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- 3.19 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.
- 3.20 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.
- 3.21 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%.
- 3.22 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of sums due that are actually collected. Based on current performance the Council Tax Collection Rate is estimated to be 99%.

Other Funding Streams

New Homes Bonus and Adult Social Care Grant

- 3.23 The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas.
- 3.24 Sandwell will receive £5.3m of New Homes Bonus in 2017-18. 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.

Better Care Fund

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

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- 3.26 The BCF will mainly fund the impact of the National Living Wage on the cost of Adult Services. However, the profiling of the funding does not match the cost of the budget pressure arising from the National Living Wage.
- 3.27 In 2017-18 the BCF will not cover the additional costs of the National Living Wage but by 2018-19 the funding will be more than sufficient. The budget pressures arising in 2017-18 will therefore be funded from balances in order for the council to set a balanced budget in these years.

Schools and Children's Services Funding

- 3.28 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.
- 3.29 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.
- 3.30 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

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- 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.

Forecast Revenue Expenditure & Funding Shortfall

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

Table 7: Forecast Funding Sandwell				
	2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2019/20 (£m)
Forecast Expenditure	249.3	241.8	250.8	254.0
Forecast Funding	249.6	241.8	240.8	237.3
Cumulative Shortfall	0.3	0.0	-10.0	-6.7
Annual Shortfall	0.3	0.0	-10.0	-16.7

3.32 The basis for the forecast expenditure for 2017-18 and future years is the council's 2015-16 approved budget and the following corporate budgetary parameters: -

Table 8: Corporate Budgetary Parameters			
	17-18	18-19	19-20
	%	%	%
Pay Award	1	1	1
General Inflation	1	1	1
Supplies Inflation	0	1	1
Contractual Commitments	0	1	1
Fuel – Gas	2	2	3
Fuel – Electricity	2	2	3
Income – Fees & Charges	2.3	2	2
Income – Other	2	2	2

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

Table 9: Forecast Expenditure			
	2017-18	2018-19	2019-20
	£m	£m	£m
Pensions Deficit	-1.500	0.477	0.424
Waste Contract	1.169	1.277	1.000

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Care Act 2014	0.380	0.370	0.360
WMCA Transport Levy	-0.374	-0.139	0

Pensions Deficit

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

Waste Contract

- 3.35 The budget for the central Waste Contract has been increased in line with the latest model.

Care Act 2014

- 3.36 The Care Act 2014 included a number of elements that will impact on future care provision within Adult Social Care:

Phase 1 – from April 2015

- Expansion of deferred payments to people entering residential care
- Additional responsibilities to assess and meet the eligible needs of carers
- Changes to the assessment process and to eligibility criteria
- Responsibility to consider and promote wellbeing.
- Increased responsibility to provide information and advocacy

Phase 2 – from April 2016

- Introduction of a Care Cap to limit the amount an individual would need to contribute towards their care costs
- Significant increases to the capital limits which determine eligibility for local authority funded support.
- Introduction of Personal Care Accounts.

- 3.37 Although the Revenue Support Grant allocation for the council has reduced, this includes a transfer in of all funding relating to the implementation of the Care Act 2014 (apart from the Better Care Fund). The budget for Adults Social Care (ASC) has therefore been increased by this 'additional' funding each year.

West Midlands Combined Authority (WMCA) Transport Levy

- 3.38 The WMCA Transport levy will be £13.704m in 2017-18. The 2017-18 figure is a saving of £0.374m compared to 2016-17.

Savings

- 3.39 For 2017/18 all savings required have been achieved through the Facing the Future programme instead of the traditional 'top-slicing' approach in previous years.
- 3.40 Section 4 explains the Facing the Future programme and savings in more detail.

4 THE 'FACING THE FUTURE' PROGRAMME

What is "Facing the Future"?

- 4.1 The council launched the 'Facing the Future' (FtF) programme in 2014 in response to the unprecedented reductions in funding for local government.
- 4.2 The aim of the programme is to identify transformational council-wide projects that could make savings instead of the traditional approach of 'salami-slicing' individual service budgets. The programme represents a strategic change from focusing solely on cost reduction and service redesign to a more commercial approach.
- 4.3 The FtF Programme Board consists of the Chief Executive and all Directors, supported by the FtF Delivery Team. The Board meets on a monthly basis with progress updates reported to Cabinet on a regular basis.
- 4.4 The savings targets to be met by FtF are initially held as a central item and once projects have been sufficiently developed the associated savings are allocated out against the relevant directorate(s).

Facing the Future Savings

- 4.5 The total savings identified by the FtF programme for 2017-18 are £13.253m. Details of these and where they have been allocated are shown in the table below:

Table 10: Facing the Future Savings	
Project	2017-18 (£m)
ASC & Health	0.200
HRC Opening Hours	0.151
Directors	0.550
Housing for Adults	2.000
Non-statutory education	0.500
ACE Savings	2.380
Neighbourhoods Savings	1.000
Alternative Bin Collection / SERCO Savings	0.900
Customer Experience	0.465
Green Waste	0.103
Fees & Charges	0.100
Procurement	0.782
Employment & Skills	0.100
Libraries; Childrens Centres etc (Community Hubs)	2.000
Quality Circles: Consultancy	0.078
Quality Circles: External Venue Hire	0.066
HRA Shops and Garages	0.678

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Table 10: Facing the Future Savings	
Project	2017-18 (£m)
HRA Borrowing	0.500
Sport & Leisure	0.000
Homelessness	0.500
Welfare Rights	0.200
Total FtF Savings	13.253