

APPENDIX A: MEDIUM TERM FINANCIAL STRATEGY 2018-19 TO 2020-21

SECTION 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 and Central Government has done little to address the demand pressures being faced by Local Government.
- 1.2 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 over that 4 year period. The MTFS will provide further details about how this figure has been calculated and how this shortfall will be addressed while continuing to provide high quality services to the people of Sandwell.
- 1.3 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 2030 Vision.
- 1.4 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.
- 1.5 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, £24m of savings in 2016-17 and a further £13m in 2017-18.
- 1.6 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 can restructure once, delivering savings earlier than required secure in the knowledge that any surpluses generated are retained by the service.
- 1.7 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.



- 1.8 Many services have delivered their 2018-19 savings early and, as a consequence, have generated surpluses in 2017-18 that will be retained and reinvested in front-line services.
- 1.9 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.
- 1.10 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
- 1.11 The Audit and Risk Assurance 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.
- 1.12 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.



SECTION 2: NATIONAL POLICY and 2018-19-2019-20 SETTLEMENT

Funding Settlement

1.13 This section sets out the details of the final Local Government Finance Settlement which was announced by the Secretary of State for the Ministry of Homes, Communities and Local Government (MHCLG) on 6th February 2018. The key headlines include:

- An increase in the council tax referendum limit from 2% to 3% meaning that local authorities can now increase council tax by 2.99% without requiring a referendum.
- Continuation of the arrangements for the adult social care precept.
- No changes to the New Homes Bonus baseline or withholding of the grant for authorities considered to be not planning effectively for new homes. This had been proposed as part of the technical consultation in September.
- Flexibility for mayors of Combined Authorities to set a council tax precept at a level they decide.
- Continuation of the Adult Social Care Grant into 2018/19. This is a new announcement since the provisional settlement in December.

Spending Power

1.14 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.

1.15 The government has announced national figures for Core Spending Power for the next 2 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:

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)
Settlement Funding Assessment	16,632.4	15,574.0	14,397.9
Compensation for under-indexing Business Rates multiplier	175.0	275.0	374.8
Council Tax	23,701.6	24,902.6	26,166.0
Council Tax for Adult Social Care	948.2	1,661.2	1,824.4
Council Tax £5 Referendum	16.0	36.4	57.0



	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)
Better Care Fund	1,115.0	1,499.0	1,837.0
New Homes Bonus	1,227.4	947.5	900.0
New Homes Bonus Returned Funding	24.5	0.0	0.0
Rural Services Grant	65.0	81.0	65.0
Transition Grant	150.0	0.0	0.0
Adult Social Care Grant	241.1	150.0	0.0
Total	44,296.3	45,126.7	45,622.1

1.16 Nationally total funding across the spending review period will reduce by 2.1%, with an assumption that all Councils will agree to implement the full Council Tax increase to fund cost pressures in Adult Social Care.

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

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)
Settlement Funding Assessment	148.3	141.4	133.7
Compensation for under-indexing Business Rates multiplier	1.4	2.2	3.1
Council Tax	87.1	91.6	96.4
Council Tax Adult Social Care	4.3	7.3	7.7
Better Care Fund	11.5	16.1	20.5
New Homes Bonus	5.0	3.6	3.2
New Homes Bonus Returned Funding	0.2	0.0	0.0
Adult Social Care Grant	1.9	1.2	0.0
Total	259.7	263.5	264.5

1.18 This shows Sandwell's total funding across the spending review period reducing by 0.2%, 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 7.6% (£20.1m).



Settlement Funding Assessment

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

Table 3: Settlement Funding Assessment (Sandwell)			
	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)
Revenue Support Grant	0.0	0.0	33.7
Baseline Funding Level	148.3	141.4	100.1
Business Rates Top Up	60.7	50.1	54.1
Total	209.0	191.5	187.8

Retail Price Index (RPI)

- 1.21 The Office for Budget Responsibility (OBR) published estimated RPI rates in November 2017: -

Table 4: RPI	
	%
2018	3.3
2019	2.8
2020	2.9

- 1.22 These are the percentages that have been used where reference is made in the MTFS to budget increases in line with RPI.
- 1.23 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.



SECTION3: 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

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

Table 5: Forecast Funding Sandwell				
	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)
RSG	0.0	0.0	0.0	0.0
Business Rates	91.9	96.1	99.1	102.1



Table 5: Forecast Funding Sandwell				
	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)
Business Rates Top Up	60.7	50.1	38.9	28.9
Council Tax	87.1	91.1	95.0	101.3
Adult Social Care CT	4.3	6.2	7.2	5.1
Sub-Total	244.0	243.5	240.2	237.4
Collection Fund Deficit (One-off)	-3.7	-9.1	0.0	0.0
Total	240.2	234.5	240.2	237.4

1.25 These figures are based on the following: -

Retained Business Rates

1.26 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.

1.27 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.

1.28 The council continues 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).

1.29 The local authority completes the NNDR1 form to estimate its Business Rates income for the following financial year. Table 6 below outlines this estimate: -

Table 6: Estimated Business Rates	£
Business Rates	97.1
Central Government 50%	0.0
Fire 1%	1.0
Retained by SMBC	96.1



Business Rates Top Up

- 1.30 Some local authorities collect significantly more business rates than others. In order to be equitable and encourage enterprise in local authorities the rates retention scheme includes a system of top ups and tariffs.
- 1.31 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.
- 1.32 The Business Rates Top Up figures in Table 5 for each year are as per the final DCLG settlement. However, these figures for 2019-20 and 2020-21 have not been updated to reflect 100% Business Rates retention and therefore are likely to change.

Council Tax

- 1.33 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.
- 1.34 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.
- 1.35 The Council Tax figures in table 5 are based on the Council Tax base that was reported to Cabinet in December 2017 with an assumed growth in Council Tax base of 1% per annum thereafter.
- 1.36 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% each year from 2016-17 to 2019-20 (with the total increase not exceeding 6%) and by introducing a different version of the Better Care Fund from 2017-18.
- 1.37 The MTFs approved by Council in March 2016 contained an assumption that, in 2016/17, Council Tax would increase by 3.99% pa, which is made up of a 1.99% increase in general Council Tax and 2% Adult Social Care precept.
- 1.38 The 2017-18 settlement included 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 2017-18 MTFs therefore assumed a 3% increase in Council Tax relating to the Adult Social Care Precept for 2017-18 and 2018-19.



1.39 The 2018-19 settlement increased the limit at which local authorities have to hold a referendum before increasing the general element of Council Tax from 2% to 3%. The 2018-19 MTFS therefore assumes the following increases in Council Tax: -

Table 7: Council Tax Increases			
	General	Adult Social Care Precept	Total
2018-19	2.99%	2.00%	4.99%
2019-20	2.99%	1.00%	3.99%
2020-21	2.99%	0.00%	2.99%

1.40 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

1.41 The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas.

1.42 Sandwell will receive £3.6m of New Homes Bonus in 2018-19.

1.43 In 2017-18, Sandwell received £1.9m through the Adult Social Care Grant. However, this was funded, by the government, from a reduction in the New Homes Bonus of £1.6m therefore the actual increase in funding was only £0.3m.

1.44 It had been assumed (in line with the provisional settlement) that this funding would only be available in 2017-18. However, the final settlement included an announcement that this funding would continue in 2018-19. Sandwell will receive £1.2m for this which equates to additional funding of £0.9m.

Better Care Fund

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

1.46 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. In 2017-18



the BCF did not cover the additional costs of the National Living Wage but for 2018-19 the funding will be more than sufficient.

Forecast Revenue Expenditure & Funding Shortfall

1.47 Table 8 compares the projected net revenue expenditure to the forecast Council funding.

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)
Forecast Expenditure	240.2	234.5	246.7	250.3
Forecast Funding	240.2	234.5	240.2	237.4
Annual Shortfall	0.0	0.0	-6.5	-6.4
Cumulative Shortfall	0.0	0.0	-6.5	-12.9

1.48 The basis for the forecast expenditure for 2018-19 and future years is the council's 2017-18 approved budget and the following corporate budgetary parameters:

	2018-19 %	2019-20 %	2020-21 %
Pay Award - APT&C	2.7	2.8	2.0
Pay Award - Teachers & Chief Officers	2.0	2.0	2.0
General Inflation	1.0	1.0	1.0
Supplies Inflation	0.0	0.0	0.0
Contractual Commitments	1.0	1.0	1.0
Fuel – Gas	3.0	3.0	3.0
Fuel – Electricity	10.0	10.0	10.0
Income – Fees & Charges	2.0	2.0	2.0
Income - Other	2.0	2.0	2.0

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

Pensions Deficit



1.50 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

1.51 For 2018-19, the budget for the central Waste Contract has been reduced in line with the latest model which focusses on inflation indices, tonnage of waste collected and number of properties. From this new baseline, the budget then increases in future years.

West Midlands Combined Authority (WMCA) Contribution & Transport Levy

1.52 For 2018-19, the WMCA Transport levy will be £12.9m and the council's contribution towards the running costs of the WMCA will be £0.6m.

1.53 Table 10 below compares the total contribution to the WMCA for 2017-18 and 2018-19.

Table 10: Combined Authority Contributions		
	2017-18 (£m)	2018-19 (£m)
Operational Contribution	0.3	0.6
Transport Levy	13.7	12.9
Total	14.0	13.5

Between 2017-18 and 2018-19, the total contribution to the WMCA will reduce by £0.5m.

Savings

1.54 The council will continue to use the lessons learned through our award winning facing the future programme to deliver savings across the Medium Term Financial Strategy.

Schools Funding

1.55 The school funding settlement was announced on 19 December 2017 and confirmed that Sandwell's total Dedicated Schools Grant (DSG) allocation for 2018-19 is £319.2m. This is broken down between the following blocks: -

Table 11: DSG Blocks	
	2018-19 (£m)
Schools Block	255.9
Central School Services Block	2.0
High Needs Block	37.5



Early Years Block	23.8
Total	319.2

1.56 There are several significant changes to the funding system for 2018-19, the main headlines being: -

- Each of the blocks of the DSG have been determined by a separate national funding formula (NFF).
- Schools block funding will be based on notional allocations for each school, which will be aggregated to arrive at the schools block funding for each local authority.
- The NFF includes funding at local authority level for premises, mobility and growth based on historic spend.
- Within the schools block, the government will provide for at least a 0.5% per pupil increase for each school in 2018 to 2019 through the national funding formula.
- The national funding formula will provide local authorities with per-pupil funding of at least £3,500 for all primary schools and £4,800 for all secondary schools that have pupils in years 10 and 11 in 2019-20.

Sandwell Children's Trust

1.57 The Council will continue to set the strategic direction for Children's Services and will continue to operate within the Council's three-year corporate business planning and budget setting process.

1.58 The finances provided to the Trust will be covered within a single budget envelope called the contract sum. This is made up of:

- A realistic budget set for the delivery of the in-scope services that are transferring to the Trust
- The budget set for the new functions within the Trust Headquarters.
- The cost of the Support Service Agreements to be provided by the Council to the Trust.

1.59 The council has received independent advice from its external tax advisors, which confirms that due to the trading arrangements of the Trust it will incur significant VAT expenditure that it cannot recover. This is expected to amount to circa £1.8m. The Department for Education has advised they will provide additional funding to the Trust to the equivalent value to this sum throughout the duration of the contract.



- 1.60 Employees of the Trust will be admitted to the West Midlands Pension Fund under a designated body arrangement. Under such an arrangement the Trust will pay the same employer rate as Sandwell MBC. A requirement of the scheme is for a pension guarantee agreement to be drafted between the Council, The Trust and the West Midlands Pension Fund. The guarantee specifies that in the event that the Trust fails to pay all Scheme Liabilities to the West Midlands Pension Fund by the due date specified in the agreement then Council as the Guarantor will be liable to pay all sums due in respect of the unpaid Scheme Liabilities.
- 1.61 Following discussions with insurers and advice received from the council's insurance brokers, the Trust and council have agreed in principle for the Trust to be jointly named on the council's insurance policies for the period of the service delivery contract. These policies include public liability, employer's liability and motor cover. In addition to this, separate Directors; and Officers' insurance has been taken out by the Trust to provide liability cover for any potential claims made against the Trust's directors and senior management personally.
- 1.62 The first-year contract sum is in the process of being finalised but given the demand pressures in the system that have resulted in a significant deficit position for the current year it is anticipated that additional one-off resources in the region of £5 million will be required. These funds have been earmarked from reserves.
- 1.63 The financial mechanism includes provision that future year contract sum negotiations may include consideration of each Party's overall financial position including the need to demonstrate efficiency savings. Detailed discussions about future years funding and the level of savings that the Trust can reasonably be expected to deliver will be undertaken in the coming months as part of the development of the Trust business plan.

