

APPENDIX A MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23

INTRODUCTION

The Medium-Term Financial Strategy (MTFS) sets out how the council will structure and manage its finances now and in the future. It is aligned to the Council's new corporate plan and other strategic documents.

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.

The 3 key objectives of the council's MTFS have been: -

1. Ensure the council remains financially stable.
2. Protect front-line services to the people of Sandwell.
3. Deliver a multi-year budget planning process that fully integrates revenue and capital resources.

Following the publication of the new Corporate Plan, a new objective will be added:

4. To align resources to the Corporate Plan.

Our plan sets out 6 strategic outcomes and a series of commitments, together with our vision for one team, one council – creating a modern efficient council to deliver this exciting agenda.

We want our residents to have better, more fulfilling lives in a thriving community. There are 6 key outcomes we want to achieve:

- The best start in life for children and young people;
- People live well and age well;
- Strong, resilient communities;
- Quality homes in thriving neighbourhoods;
- A strong and inclusive economy;
- A connected and accessible Sandwell.

By prioritising these, we will be tackling poverty and inequality, maximising outcomes for residents and putting Sandwell on the map. Work to align resources to the Corporate Plan will take place in 2020.

In addition, detailed plans will be developed during 2020 to identify investment and resources to fund our commitment to the climate change agenda.



1 THE NATIONAL POSITION

THE AGE OF AUSTERITY SINCE 2010

- 1.1 Local Government has faced enormous financial challenges since the start of austerity in 2010. On average, funding has fallen by 24% per person over the last decade with central government funding down by 37%. Most of the cuts took effect between 2009/10 and 2015/16. Since then, the pace of cuts has slowed as additional ring-fenced grant funding for adult social care services and a resumption of council tax increases have almost offset cuts to general grant funding.
- 1.2 The cuts haven't been applied equally. The most deprived 10% of councils have seen cuts of 31%, compared with 16% in the least deprived councils. This reflects the fact that between 2009/10 and 2015/16, the system for determining how much central government funding councils should get did not take into account how much councils relied on such funding relative to their own council tax revenues. Changes to the way grants were allocated from 2016/17 have remedied this issue since then – but have not undone the damage done previously.
- 1.3 Councils have made large cuts to more discretionary areas of spending and areas where it is relatively easier to raise income from fees and charges. Spending per person on planning and development is down around 60%, on cultural services and housing services down over 50% and on transport down over 40%. This has allowed councils to relatively protect services for those with acute needs and rising demands. Spending on adult social care services is down by just 7%, and spending on children's social care services is budgeted to be up by 2%.

THE LOCAL GOVERNMENT FUNDING SETTLEMENT 2020/21

- 1.4 The details of the final Local Government Finance Settlement were announced by the Secretary of State for the Ministry of Homes, Communities and Local Government (MHCLG) on 6 February 2020. The key headlines include:
 - A reduction of the increased Council Tax referendum limit from 3% to 2% meaning that local authorities can increase Council Tax by 1.99% without requiring a referendum.
 - A 2% adult social care precept.
 - An increase of £1bn on the Social Care Support Grant.
- 1.5 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 several government grants, excluding those for education and policing. Nationally total funding for 2020/21 will increase by 6.3%, with an assumption that all Councils will agree to implement the full 3.99% Council Tax increase.



THE LONGER-TERM FUNDING OUTLOOK

- 1.6 Looking further ahead, the vast majority of councils' funding is set to come from council tax and business rates from 2021/22 onwards. This is because of the plan to move all councils to retaining 75% of business rates revenues, with grant funding cut accordingly to ensure the reform is revenue-neutral at the point of implementation.
- 1.7 Revenues from these two taxes will not keep pace with rising demands and costs. Even if Council Tax bills continue to increase at 3.99% it is estimated that an additional £1.6 billion of funding will be needed by 2024/25 to both meet projected adult social care costs and stop the revenue available for other services falling further as a share of national income.
- 1.8 As well as taking decisions about the overall level of funding to provide to councils, the government will have to take decisions about how that funding should be distributed between them. Costs are likely to rise at different rates for different councils – because of differences in demographic and socio-economic trends. And the amount councils can raise from council tax and retained business rates varies significantly.
- 1.9 Early indications about this process are extremely concerning. Analysis undertaken by the Local Government Association provides an illustration of the impact of the proposed new adult social care relative needs formulas which are being considered for implementation in 2021/22. This analysis shows a huge shift in resources from deprived Metropolitan Councils to wealthy shires. The position for Sandwell is particularly bad, with an estimated cut in funding for older people of 16%.

2 THE SANDWELL POSITION

MANAGEMENT OF RISK

- 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. This will support the council in:
- Achieving planned financial targets;
 - Achieving a high level of customer satisfaction in our service delivery;
 - Maintaining a safe and supportive working environment for staff;
 - Enhancing our reputation;
 - Maintaining compliance with legal and regulatory framework
- 1.11 The Audit and Risk Assurance Committee governs risk management. Key risks are evaluated within regular 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.

THE LOCAL 2020/21 FUNDING SETTLEMENT

- 1.13 The government has announced figures showing the Core Spending Power for Sandwell, shown in Table 1: -

Table 1: Core Spending Power (Sandwell)		
	2019/20 (£m)	2020/21 (£m)
Settlement Funding Assessment	133.8	136.0
Compensation for under-indexing Business Rates multiplier	3.3	4.1
Council Tax	96.2	100.2
Council Tax Adult Social Care	7.7	10.2
Better Care Fund	20.5	22.3
New Homes Bonus	2.9	1.6
Winter Pressures	1.8	0.0
Social Care Support Grant	3.2	0.0
Social Care Grant	0.0	12.3
Total	269.4	286.7

- 1.14 This shows Sandwell's total funding will increase by 6.4% between 2019/20 and 2020/21 (assuming the Council agrees to implement the full Council Tax increase including the Adult Social Care precept).
- 1.15 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).



1.16 The Settlement Funding Assessment for Sandwell is broken down in Table 2:

Table 2: Settlement Funding Assessment (Sandwell)		
	2019/20 (£m)	2020/21 (£m)
Revenue Support Grant	0.0	0.0
Baseline Funding Level	133.8	136.0
Business Rates Top Up	40.9	41.6
Total	174.7	177.6

RESERVES

1.17 Sandwell MBC's reserves policy is:

- 1) To maintain opening free balances 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. There has been no call on free balances during 2019/20 so this figure remains unchanged at £12.105m;
- 2) Additional reserves/balances 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. Earmarked reserves amounted to £51.058m as at 31 March 2019. £11.366m of these reserves are planned to be utilised this year, leaving a balance of £39.692m to be carried forward to 2020/21;
- 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 Finance Officer regarding the source of the surplus or additional income and the proposed application of those resources. Carry forwards amounted to £22.204m as at 31 March 2019 and this figure is projected to reduce by £9.894m to £12.310m as at 31 March 2020;
- 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. There are no such reserves available at this time;



- 5) 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.

FORECAST REVENUE FUNDING LEVELS

- 1.18 Table 4 shows the current funding levels forecast for the council over the next 3 years.

Table 4: Forecast Funding Sandwell				
	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
RSG	0.0	0.0	0.0	0.0
Business Rates	96.6	99.8	102.9	106.0
Business Rates Top Up	40.9	41.6	41.6	41.6
Council Tax	96.6	98.8	101.5	104.7
Adult Social Care CT	7.4	9.5	9.5	9.6
Collection Fund Surplus/Deficit	1.8	0.2	0.0	0.0
Total	243.3	249.9	255.4	261.9

- 1.19 The figures for 2020/21 are based on information published by MHCLG combined with the latest information held by the Council. There is significant uncertainty around local government funding beyond 2020/21 and so it is important to exercise caution about the figures shown for those years. These figures assume the continuation of the existing Local Government funding regime as this is considered to be a prudent approach given the scale of uncertainty in the system at present.
- 1.20 The sections below explain how these figures have been calculated as well as an assessment of the potential changes that are currently being considered nationally and how they could impact upon Sandwell MBC.

Business Rates Retention

- 1.21 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.



- 1.22 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.
- 1.23 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 in 2020/21 but will be able to retain all of the Business Rates collected (with 1% continuing to be paid to West Midlands Fire Service).
- 1.24 The local authority completes the NNDR1 form to estimate its Business Rates income for the following financial year. The table below outlines this estimate:

Table 5: Estimated Business Rates	£m
Business Rates	100.800
Central Government 50%	0.000
Fire 1%	(1.0)
Retained by SMBC	99.8

- 1.25 The government has announced an intention to move to a 75% retention model under the new Business Rates system from 2021/22 although it is not clear what will happen to the 100% business rates retention model currently being piloted in a number of combined authority areas, including the West Midlands. An analysis undertaken by Members of the West Midlands Finance Support Group based on the NNDR returns for 2018/19 has shown that after adjusting for section 31 grants and top ups Sandwell MBC has benefited from the 100% rates retention scheme by £7.8m and would lose £3.9m if there was a return to 75% rates retention. The WMCA is lobbying for the 100% retention scheme to continue and so, for planning purposes, it is assumed that the current 100% retention system will continue.
- 1.26 It should be noted that the value of rates growth retained would be reduced by a Business Rates reset and only growth above the new baseline would be retained (see section below).

Business Rates Reset

- 1.27 The government intends to carry out a full reset of business rates baselines in 2021/22 as growth across the country has not been accrued equally. Those local authorities that have benefited the most from business rates growth have retained this growth since the last reset in 2013/14. The MHCLG's own estimate of rates growth is that there was around £1.5 billion held by authorities at a local level in 2018-19 although this assumed 50% rates retention and did not include additional income from 75% and 100% pilots.



- 1.28 It is difficult to calculate the impact of a baseline reset in 2021/22 at a local authority level and the government has not released the details of the method of redistribution nor any indicative figures. It should also be noted that the business rates reset would result in a new baseline for business rates retention and any growth retained between the 2013/14 baseline and the new baseline would be lost. This loss would need to be offset against any additional funding distributed as part of the baseline reset.
- 1.29 The Special Interest Group of Metropolitan Authorities (SIGOMA) has carried out two different analyses. The first is based on the £1.5 billion MHCLG estimate of rates growth which shows that Sandwell MBC could benefit by £11.2m if there was a redistribution based on 2018/19 business rates income. The MHCLG surplus is based on an estimate of rates income in 2018/19 and assumes 50% national retention which means the actual surplus available for distribution would be significantly higher. The £11.2m would also have to be offset against the business rates retention growth which would be lost. The second analysis using average business rates growth from 2015/16 to 2018/19 shows Sandwell MBC would have an overall net benefit of £1.9m after redistribution and removal of business rates retention growth.

Business Rates Alternative System

- 1.30 The government is considering an alternative business rates model that reduces volatility in the system by pooling appeals. It is understood that the government will consider moving to this new model if it is supported by a majority of the sector during a consultation process planned to take place during 2020.
- 1.31 The new system would remove the impact of appeals by adjusting each local authority local share to its baseline funding amount. There would also be an annual payment to reward growth or claw back a decline. Until a consultation is issued on the exact mechanics of this system it is too early to ascertain whether there will be a financial impact on Sandwell MBC.

Business Rates Top-Up

- 1.32 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.
- 1.33 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.
- 1.34 The Business Rates Top Up figures in Table 4 for 2020/21 is per the final MHCLG settlement. No figures have been provided for 2021/22 onwards and therefore these figures are estimated based on the best information currently available.



Fair Funding review

- 1.35 Settlement funding will be distributed through a new formula from 2021-22. A consultation was issued in December 2018 which set out the proposed elements of the new formula. This included a Foundation Formula and additional service specific formulas for the following services.
- Adult Social Care
 - Children and Young Peoples Services
 - Public Health
 - Highways Maintenance
 - Flood Defence
- 1.36 It is not currently possible to calculate the potential financial impact on Sandwell MBC until the final formula has been confirmed and indicative allocations have been issued to local authorities. We expect indicative allocations based on the 2020/21 settlement to be issued to local authorities by the summer of 2020.
- 1.37 A review of the proposed funding formula detailed in the consultation has identified the following issues which may have an impact on the amount of funding that Sandwell MBC receives:
- 1) There will be a measure of deprivation in the service specific formulae for Adults, Children's and Public Health but the foundation formula does not include deprivation and will be based solely on population. This exclusion is justified by the MHCLG claim that deprivation is not a driver of either cost or need. This is disputed by SIGOMA who have produced evidence to show that deprivation is a factor in expenditure levels by some local authorities.
 - 2) The formula will include an Area Cost Adjustment to the Foundation Formula. This is based on three factors which are a rates adjustment, labour cost adjustment and a remoteness adjustment. The budget for this adjustment will be taken from the total funding distributed through the formula but Sandwell MBC is unlikely to receive any financial benefit from any of the factors included in this adjustment.
 - 3) The Children's Services Formula will be very different to the 2013 funding formula. The new formula will be based upon a multi-level model which will use children's social care activity data in conjunction with wider child data and socio-economic data about the area, to predict demand at an individual, client-level providing a highly nuanced and robust formula. This approach means the formula will be able to incorporate substantial levels of detail and has the advantage of accounting for variation and patterns of need within as well as between local authorities. It is unclear whether Sandwell MBC will benefit from this formula until details of the formula are released within the next few months.



- 4) Funding for Home to School Transport is currently distributed to local authorities through the Central Education Functions Relative Needs Formula and there is a separate cost driver within the Children's Services Block. The consultation proposal is to not have a separate cost driver for Home to School Transport and funding would be allocated through the Foundation Formula based on population numbers. Sandwell MBC has a high cost SEN Home to School Transport service which is driven by an increasing number of children with SEN transport needs and would not benefit from a distribution of funding based solely on population numbers.
- 5) There are unlikely to be any transitional arrangements if the one-off grants are rolled into the settlement formula because all local authorities will gain in comparison to the 2013 funding formula. The transfer of the one-off grants into the funding formula could result in some local authorities suffering a significant reduction in total spending power in 2021/22 in comparison to 2020/21.
- 6) Analysis undertaken by the Local Government Association provides an illustration of the impact of the proposed new adult social care relative needs formulas which are being considered for implementation in 2021/22. This analysis shows a huge shift in resources from deprived Metropolitan Councils to wealthy shires. The position for Sandwell is particularly bad, with an estimated cut in funding for older people of 16%.

Council Tax

- 1.38 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.
- 1.39 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.
- 1.40 The Council Tax figures in table 6 are based on the Council Tax base that was reported to Cabinet in January 2020 with an assumed growth in Council Tax base of 0.5% in 2021/22 and 1% per annum thereafter.



1.41 The 2020/21 settlement reduced the limit at which local authorities have to hold a referendum before increasing the general element of Council Tax from 3% to 2% and confirmed a further Adult Social Care precept of 2%. For planning purposes, and in the absence of any further information from MHCLG, it is assumed that these limits will continue into future years. The MTFS therefore assumes the following increases in Council Tax: -

Table 6: Council Tax Increases	Main CT (%)	Adult Social Care (%)	Total (%)
2019/20	2.99	1.00	3.99
2020/21	1.99	2.00	3.99
2021/22	1.99	2.00	3.99
2022/23	1.99	2.00	3.99

1.42 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

1.43 The New Homes Bonus is a grant paid by central government to local councils to reflect housing growth in their areas. It is top-sliced from the funding available through the Local Government Finance settlement. Sandwell will receive £1.6 million of New Homes Bonus in 2020/21, a reduction of £1.3 million from 2019/20.

1.44 For planning purposes, it is assumed that this grant will continue into future years.

1.45 The government also announced that they will be issuing a consultation in Spring 2020 about the future of this funding stream which will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes needed, and which is aligned with other measures around planning performance



Better Care Fund

- 1.46 The Better Care Fund (BCF) will provide financial support for councils and NHS organisations to jointly plan and deliver local services.
- 1.47 In 2020/21 Sandwell will receive £22.3 million of funding through the Better Care Fund.
- 1.48 The government has not yet announced what will happen to BCF from 2021/22 onwards. It has currently been assumed that this will continue for the period of the MTFS.

Social Care Grant

- 1.49 As part of the final settlement, MHCLG announced a significant increase in the Social Care Grant which can be used to address pressures in both Adult and Children's Social Care. It has been confirmed that Sandwell MBC will receive grant funding of £12.317 million in 2020/21, an increase of £9.159 million when compared to the predecessor grants.
- 1.50 The government has confirmed that this grant will continue for the lifetime of this parliament.

Winter Pressures Grant

- 1.51 The winter pressures grant has now ended, and the funding has been rolled into the Better Care Fund.

Public Health Grant

- 1.52 At the time of writing the Government has still not confirmed the level of Public Health grant funding for 2020/21.
- 1.53 The government has not yet announced what will happen to the Public Health grant from 2021/22 onwards, although there is a long-standing expectation that the current ring-fence will be removed at the end of 2020/21.

FORECAST REVENUE EXPENDITURE LEVELS

PAY AWARD AND INFLATION

- 1.54 The council regularly updates estimates for pay award and inflation to reflect the latest national data. The previous MTFS approved by Council in March 2019 assumed ongoing pay award of 2% but, in light of the recent pay claim, this estimate is no longer considered prudent. This MTFS therefore provides funding for a 3% pay award in 2021/21 followed by 2.5% in future years.



Funding is also provided to deliver on the Council’s commitment to pay the foundation living wage to all our employees.

Table 7: Corporate Budgetary Parameters			
	2019/20 (%)	2020/21 (%)	2021/22 (%)
Pay Award - APT&C	2.45	3.00	2.50
Pay Award - Teachers & Chief Officers	2.45	3.00	2.50
General Inflation	1.00	1.00	1.00
Contractual Commitments	1.00	1.00	1.00
Fuel – Gas	5.00	5.00	5.00
Fuel – Electricity	15.00	15.00	15.00
Income – Fees & Charges	2.00	2.00	2.00
Income - Internal Recharges	1.00	1.00	1.00
Income – Other	2.00	2.00	2.00

PAYMENT TO WEST MIDLANDS PENSION FUND

- 1.55 The triennial valuation of the pension fund took place in 2019/20. This has resulted in a reduction in the past service pensions deficit and an increase in the Future Service Rate.

WASTE CONTRACT

- 1.56 For 2018/19, the budget for the central Waste Contract has been adjusted in line with the latest model which focusses on inflation indices, tonnage of waste collected and number of properties.

WEST MIDLANDS COMBINED AUTHORITY (WMCA) CONTRIBUTION & TRANSPORT LEVY

- 1.57 For 2019/20, the WMCA Transport levy will be £12.887m and the council’s business rates contribution to the WMCA will be £0.750m.

SANDWELL CHILDREN’S TRUST

- 1.58 The Council will continue to set the strategic direction for Sandwell Children’s Trust and part of this will be to ensure that the Trust operate within the Council’s three-year corporate business planning and budget setting process.



1.59 The contract sum that has been paid to the Trust in 2018/19 was calculated by consultants appointed by the DfE in consultation with representatives from the Council and the Trust. Considerable work has been undertaken between officers from the Council and the Children’s Trust to update the Trust’s MTFS. This work was formally approved at the Strategic Partnership Board on 18 February and has been built into the Council’s budget plan.

PROJECTED SUMMARY POSITION

1.60 Table 8 compares the projected net revenue expenditure to the forecast Council funding. Given the scale of uncertainty detailed throughout this MTFS it is recommended that caution be used when reporting these figures.

Table 8: Forecast Funding compared to Expenditure (Sandwell)				
	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Forecast Expenditure	243.3	249.9	256.1	261.2
Forecast Funding	243.3	249.9	255.4	261.9
Annual Shortfall	0.0	0.0	-0.7	1.4
Cumulative Shortfall	0.0	0.0	-0.7	0.7

1.61 Regular updates will be provided to Cabinet as the Government publishes updates.

