

## APPENDIX A

# MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2023/24

## 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 4 key objectives of the council's MTFS are: -

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.
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, was planned during 2020 but has unfortunately been delayed by the COVID-19 pandemic.

In addition, detailed plans were due to 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 have not 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.

## 2 COVID-19 PANDEMIC – FINANCIAL IMPACT

- 2.1 The COVID-19 pandemic has had a significant impact on the Council's finances. The MHCLG have allocated several grants to assist councils with dealing with the pandemic and current projections show that these will be sufficient to cover the financial pressure for Sandwell MBC in the short term.
- 2.2 The Local Government Finance Settlement confirmed a number of COVID-19 funding schemes for 2021/22 but there is still considerable uncertainty about the ongoing impact of COVID-19 and whether the government is intending to provide additional funding to cover this.
- 2.3 The Council has submitted monthly returns to the MHCLG outlining the main financial pressures that are being faced due to the pandemic. The main ones are: -
  - A reduction in Business Rates and Council Tax income
  - A delay in the delivery of planned savings
  - Support for Adult Social Care providers
  - Loss of income from sales, fees and charges
  - Loss of commercial income
  - Public Health – testing, contact tracing and outbreak planning
  - Purchase of PPE
- 2.4 The impact of the pandemic on the global and local economy has been severe and the economic outlook remains uncertain. Although the one-off grants provided by central government have covered immediate pressures, it is inevitable that the ongoing impact of COVID-19 will affect the council's MTFS for a number of years.



- 2.5 One of the main priorities for the council now is recovery and reset from COVID-19 alongside realigning resources with the new senior management structure and Corporate Plan.

### 3 THE LOCAL GOVERNMENT FUNDING SETTLEMENT 2021/22

3.1 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 4 February 2021. The Fair Funding Review and other expected funding reforms have been delayed due to the COVID-19 pandemic and the settlement only covers 2021/22. Funding projections after that are therefore subject to significant uncertainty.

3.2 The key headlines from the settlement include:

- Core spending power for England councils increases by 4.5%
- The Improved Better Care Fund remains at the same value as 2020/21.
- The Social Care Grant increases by £300m nationally.
- A new Lower Tier Services grant, financed from a reduction in New Homes Bonus.
- Council Tax referendum cap remains at 2% with the ability to set an Adult Social Care precept up to 3% over the next two financial years.
- A further tranche of COVID-19 emergency funding.
- Funding to cover 75% of irrecoverable Council Tax and Business Rates losses in 2020/21.
- A £670m Local Council Tax Support scheme to allow further support to those residents in financial difficulty.
- The Troubled Families programme will continue in 2021/22.
- An extra £125m new burdens funding for local authorities to provide safe accommodation for victims of domestic abuse and their children.
- £15m to help with compliance with the recommendations of the Redmond Review of external audit.

3.3 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 2021/22 will increase by 4.5%, with an assumption that all Councils will agree to implement the full 4.99% Council Tax increase.



## 4 THE SANDWELL POSITION

### THE LOCAL 2021/22 FUNDING SETTLEMENT

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

Table 1: Core Spending Power (Sandwell)		
	2020/21 (£m)	2021/22 (£m)
Settlement Funding Assessment	136.0	136.2
Compensation for under-indexing Business Rates multiplier	4.1	5.3
Council Tax	108.3	115.4
Better Care Fund	22.3	22.3
New Homes Bonus	1.6	1.3
Winter Pressures	0.0	0.0
Social Care Support Grant	0.0	0.0
Social Care Grant	12.3	17.0
Lower Tier Services Grant	0.0	0.6
<b>Total</b>	<b>284.6</b>	<b>298.0</b>

- 4.2 This shows Sandwell's total funding will increase by 4.7% between 2020/21 and 2021/22 (although this assumes full implementation of the Adult Social Care precept).
- 4.3 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).



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

<b>Table 2: Settlement Funding Assessment (Sandwell)</b>		
	<b>2020/21 (£m)</b>	<b>2021/22 (£m)</b>
Revenue Support Grant	0.0	0.0
Baseline Funding Level	136.0	136.2
Business Rates Top Up	41.6	41.8
<b>Total</b>	<b>177.6</b>	<b>177.9</b>

## RESERVES

4.5 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 2020/21 so this figure remains unchanged at £11.470m;
- 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 £66.956m as at 31 March 2020. £7.682m of these reserves are planned to be utilised this year, leaving a balance of £59.274m to be carried forward to 2021/22;
- 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 £8.641m as at 31 March 2020 and this figure is projected to reduce by £4.729m to £3.912m as at 31 March 2021;
- 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

4.6 Table 3 shows the current funding levels forecast for the council over the next 3 years.

<b>Table 3: Forecast Funding Sandwell</b>				
	<b>2020/21 (£m)</b>	<b>2021/22 (£m)</b>	<b>2022/23 (£m)</b>	<b>2023/24 (£m)</b>
RSG	0.0	0.0	0.0	0.0
Business Rates	99.8	99.4	101.5	103.5
Business Rates Top Up	41.6	41.8	41.8	41.8
Council Tax	98.8	101.1	104.4	107.8
Adult Social Care CT	9.5	10.6	12.9	13.0
Collection Fund Surplus/Deficit	0.2	-39.5	-1.9	-1.9
<b>Total</b>	<b>249.9</b>	<b>213.3</b>	<b>258.6</b>	<b>264.2</b>

4.7 The figures for 2021/22 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 2021/22 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.

4.8 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

4.9 The Business Rates 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.

4.10 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.



- 4.11 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 2021/22 but will be able to retain all of the Business Rates collected (with 1% continuing to be paid to West Midlands Fire Service).
- 4.12 The local authority completes the NNDR1 form to estimate its Business Rates income for the following financial year. The table below outlines this estimate:

<b>Table 4: Estimated Business Rates</b>	<b>£</b>
Business Rates	100.37
Central Government 50%	0.0
Fire 1%	1.00
<b>Retained by SMBC</b>	<b>99.4</b>

- 4.13 The government had announced an intention to move to a 75% retention model under the new Business Rates system from 2021/22 but this has been delayed due to COVID-19. When this is implemented, 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.
- 4.14 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.

### **Business Rates Top-Up**

- 4.15 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.
- 4.16 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.
- 4.17 The Business Rates Top Up figures in Table 3 for 2021/22 is per the final MHCLG settlement. No figures have been provided for 2022/23 onwards and therefore these figures are estimated based on the best information currently available.



## Council Tax

- 4.18 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.
- 4.19 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.
- 4.20 The Council Tax figures in table 5 are based on the Council Tax base that was reported to Cabinet in January 2021 with an assumed growth in Council Tax base of 0.5% in 2021/22 and 1% per annum thereafter.
- 4.21 The 2021/22 settlement retained the limit at which local authorities have to hold a referendum before increasing the general element of Council Tax as 2% and confirmed a further Adult Social Care precept of 3% which can be split over 2021/22 and 2022/23. The council has made the decision to only implement an ASC precept of 1% in 2021/22 in order to maintain lower Council Tax rates for residents. For planning purposes, it is assumed that the remaining 2% will be implemented in 2022/23 but a formal decision-making process will be required for that year. In the absence of information from the MHCLG, it is assumed that these limits continue in future years. The MTFS therefore assumes the following increases in Council Tax: -

Table 5: Council Tax	
	2021/22 (%)
General	1.99
Adults Social Care Precept	1.00

- 4.22 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 98%.

## Other Funding Streams

### New Homes Bonus

- 4.23 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 £1.3m of New Homes Bonus in 2021/22, a reduction of £0.3m from 2020/21.
- 4.24 For planning purposes, it is assumed that this grant will cease from 2022/23 onwards.



- 4.25 The government had also announced that they would issue a consultation in Spring 2020 about the future of this funding stream but this has been delayed. The consultation has now been issued and Council officers will be assessing the potential impact and responding by the set deadline.

### **Better Care Fund**

- 4.26 The Better Care Fund (BCF) will provide financial support for councils and NHS organisations to jointly plan and deliver local services.
- 4.27 In 2021/22 Sandwell will receive £22.3m of funding through the Better Care Fund.
- 4.28 The government has not yet announced what will happen to BCF from 2022/23 onwards. It has currently been assumed that this will continue for the period of the MTFS.

### **Social Care Grant**

- 4.29 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 £17m in 2021/22, an increase of £4.7m when compared to 2020/21.
- 4.30 The government has confirmed that this grant will continue for the lifetime of this parliament.

### **Public Health Grant**

- 4.31 At the time of writing the Government has still not confirmed the level of Public Health grant funding for 2021/22.

## **FORECAST REVENUE EXPENDITURE LEVELS**

### **PAY AWARD AND INFLATION**

- 4.32 The council regularly updates estimates for pay award and inflation to reflect the latest national data. Although there has been a public sector pay freeze, a contingency of 1% pay award has been built into the budget as some conversations are still taking place about this nationally.

### **PAYMENT TO WEST MIDLANDS PENSION FUND**

- 4.33 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

- 4.34 For 2021/22, 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

- 4.35 For 2021/22, the WMCA Transport levy is estimated to remain the same as in 2021/22 which is £12.887m. There is still uncertainty around the Business Rates growth contributions as Councils have not seen any growth in the last year due to COVID-19.

## SANDWELL CHILDREN'S TRUST (SCT)

- 4.36 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.
- 4.37 Considerable work has been undertaken between officers from the Council and SCT to agree the contract sum for 2021/22 which is £0.550m higher than the amount included in the existing MTFP for the same year. This work has been considered by Budget and Corporate Scrutiny Management Board on 9<sup>th</sup> February and will be approved by Cabinet as part of the budget process.

## PROJECTED SUMMARY POSITION

- 4.38 Table 6 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.

	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
Forecast Expenditure	249.9	261.0	267.5	271.0
Forecast Funding	249.9	247.3	258.6	264.2
<b>Annual Shortfall</b>	<b>0.0</b>	<b>-13.8</b>	<b>-8.9</b>	<b>-6.8</b>

- 4.39 The main reasons for the shortfall in 2021/22 relate to the impact of COVID-19 on: -

- Business Rates and Council Tax collection rates in 2020/21.



- The ongoing economic impact on future Business Rates and Council Tax income.
- The inability to address several budget pressures over the last year due to the focus on dealing with the immediate impact of the pandemic.

4.40 The budget for 2021/22 will be balanced as follows: -

<b>Table 7: Balancing the budget 2021/22</b>	
	<b>2021/22 (£m)</b>
Funding Shortfall	-13.802
Earmarked Balances no longer required	7.972
COVID-19 Emergency Funding to offset Collection Fund Deficit	5.831
<b>Total</b>	<b>0.000</b>

4.41 The council's Budget Board has now begun work on identifying savings proposals in order to balance the budget in subsequent years. Regular updates will be provided to Cabinet on this alongside any announcements made by the government on future funding streams.

## 5 THE LONGER-TERM FUNDING OUTLOOK

- 5.1 Looking further ahead, 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, has now been delayed due to COVID-19.
- 5.2 Revenues from Council Tax and Business Rates will not keep pace with rising demands and costs. Even if Council Tax bills increased at the previous rate of 4.99% it is estimated that an additional £1.6bn 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.

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.

### Business Rates Reset

- 5.3 The government have delayed their intended full reset of Business Rates baselines in 2021/22. This was due to be implemented 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.
- 5.4 It is difficult to calculate the impact of a baseline reset in 2021/22. The Special Interest Group of Metropolitan Authorities (SIGOMA) has carried out two different analyses.



- 5.5 The first is based on the £1.5bn 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.
- 5.6 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**

- 5.7 The government is considering an alternative Business Rates model that reduces volatility in the system by pooling appeals.
- 5.8 The new system would remove the impact of appeals by adjusting each local authority's 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.

### **Fair Funding review**

- 5.9 Settlement funding was due to be distributed through a new formula from 2021/22 but this has been delayed. 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
- 5.10 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 this.
- 3) The Children's Services Formula will be 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.
- 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 SEND 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.
- 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%.

## MANAGEMENT OF RISK

5.11 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

5.12 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.

5.13 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.

