

Report to Cabinet

16 October 2024

Subject:	Medium-Term Financial Strategy – Autumn 2024 Update
Cabinet Member:	Cabinet Member for Finance & Resources Councillor Paul Moore
Director:	Executive Director for Finance and Transformation & Section 151 Officer Alex Thompson
Key Decision:	Yes
Contact Officer:	Claire Spencer – Acting Assistant Director Finance Claire_spencer@sandwell.gov.uk

1. Recommendations

For the reasons set out in this report, it is recommended that Cabinet:

- 1.1. Endorses the Draft Medium-Term Financial Strategy at Appendix A that includes financial estimates and proposals that could achieve the legal requirement to balance the Council’s budget for 2025/26.
- 1.2. Notes that the figures in the attached financial strategy are accurate as at October 2024 and will be subject to ongoing analysis and review.
- 1.3. Authorises the Executive Director for Finance and Transformation to commence a period of appropriate consultation on the proposals detailed at Annex 4 of Appendix A.
- 1.4. Approves the budget timetable as set out in Annex 1 of Appendix A.

2. Reasons for Recommendations

- 2.1. The Local Government Finance Act 1992 requires the Council to set a balanced, risk assessed budget each year and approve a Council Tax precept by 11 March.
- 2.2. The Council has a duty to consult with those who are liable to pay council tax or non-domestic rates, as well as those who use or are likely to use services provided by the Council. A public engagement exercise on the Council's budget for 2024/25 was conducted during Autumn 2023, seeking residents' views on how the Council should reduce expenditure and/or generate additional income to deliver a balanced budget. To enable a balanced budget to be set for 2025/26, the Council has developed a list of efficiency options which, if adopted, will impact residents and businesses in the borough, and therefore a similar consultation exercise needs to be carried out in relation to the 2025/26 budget.
- 2.3. This report presents the current position of the Medium-Term Financial Strategy (MTFS) and seeks approval to commence consultation on a range of potential efficiency options to support the Council in setting a balanced budget in February 2025.

3. How does this deliver objectives of the Council Plan?

Growing Up in Sandwell	The financial position of the authority determines the affordability of all the authority's activities. This underpins the resources available to achieve Council Plan. The proposals within this report support the objectives of the Council Plan by ensuring that the Council aligns available resources most efficiently to meet its strategic policy and performance commitments. This ensures the Council's best value obligations are met. Consultation and stakeholder engagement proposals within the report ensure any subsequent decisions are fully informed and reasoned.
Living in Sandwell	
Thriving Economy in Sandwell	
Healthy in Sandwell	
One Council One Team	

4. Context and Key Issues

General Fund Revenue Budget

- 4.1. The February 2024 MTFS identified an estimated budget shortfall of £18.5m in 2025/26. Indicative efficiency proposals and financial estimates were included in the report but there was still an underlying deficit of £12.5m.
- 4.2. Since February, the MTFS has been regularly reviewed and the deficit figure has changed during the financial year 2024/25. This reflects ongoing refinement and testing of initial planning assumptions. The figures have changed based on the financial position of the local government sector in general and to take in to account the latest economic and budget forecast calculations.
- 4.3. The revised budget shortfall in 2025/26 is £19.8m. The reasons for the movement in the forecast budget shortfall are shown in Annex 3 of the MTFS (Appendix A) and are summarised in Table 1 below.

Table 1 – Movement in Forecast Budget Shortfall for 2025/26

Description of Shortfall/Movement	2025/26 £m
Forecast budget shortfall as at February 2024	12.5
Efficiency proposals identified within forecast shortfall as at February 2024 (to be reconsidered through consultation for 2025/26)	6.0
Reduction in assumed pay inflation costs	(1.2)
Reductions in contract price inflation and budget pressures identified in February	(3.2)
New budget pressures identified since February	7.5
Increase in business rates income forecast	(1.8)
Revised forecast budget shortfall as at October 2024 (Before efficiency proposals)	19.8

- 4.4. The Provisional Local Government Finance Settlement is not expected to be received until late December 2024. At this stage no new Government Grant funding is assumed within the MTFS.
- 4.5. Table 2 below summarises the current forecast budget shortfall over the five-year MTFS period, before efficiency proposals are considered.

Table 2 – Forecast Budget Shortfall Over MTF5 Period

Financial Year	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Estimated Budget Shortfall before Efficiency Proposals	19.8	25.3	33.3	39.5	43.8

- 4.6. This analysis shows that the Council must locally identify and implement net budget reductions to balance the 2025/26 budget that are sustainable over the MTF5 period. Budget reductions could be made from cost reductions or increases in income, but the overwhelming proportion of these must be made on a recurring basis.
- 4.7. In any local authority, the overall suite of budget variations to ensure a balanced budget will reflect a blend of efficiencies from the adoption of best practice, the adjustment of service provision (sometimes suspension or cessation of previous service levels) and transformational changes. The council must explore all these approaches in setting a balanced budget for 2025/26.
- 4.8. A Corporate Transformation Board has already been established to guide and control the use of transformational approaches in the years ahead.

Efficiency Options

- 4.9. Over the summer of 2024, Cabinet and the Strategic Leadership Team undertook a ‘Star Chamber’ exercise to challenge existing budgets and identify mitigations towards the projected budget deficit.
- 4.10. This exercise resulted in options being presented to Cabinet members and sought approval to engage in consultation. Formal decisions must be completed by March 2025. The proposals that Cabinet members are asked to include in the public consultation add up to the required £19.8m and are included at Annex 4 of the MTF5 (Appendix A).

Consultation Approach

- 4.11. The Council’s proposed approach to consultation is set out in paragraphs 17 to 21 of the MTF5 (Appendix A).

- 4.12. A consultation exercise is already underway on the Local Council Tax Reduction Scheme. This was reported to Cabinet on 11th September, with the consultation running until 27 October 2024.
- 4.13. Equality Impact Assessments (EIAs) will be conducted for all efficiency options, with outcomes also being built into the decision-making process.

Scrutiny of the Budget

- 4.14. Effective scrutiny of the Council's financial position and strategy is integral to the Council's ability to achieve a sustainable budget that is aligned to its strategic priorities. January 2024 saw the first comprehensive scrutiny of the final budget proposals for 2024/25 by the Budget and Corporate Scrutiny Management Board. Similar meetings will be held on 21st and 23rd January 2025 to present the detailed budget proposals for 2025/26, where senior officers and portfolio holders will be available to respond to questions from scrutiny board members.

Next Steps

- 4.15. A budget timetable for the 2025/26 budget process is included at Annex 1 of the MTFS (Appendix A).
- 4.16. The assumptions and estimates being used in the draft budget will be continually monitored and revised, as new information becomes available. A revised MTFS will be presented to the executive, Budget and Corporate Scrutiny Management Board, Cabinet and Full Council in January and February 2025, following receipt of the Provisional Finance Settlement from the government.

Housing Revenue Account (HRA) Revenue Budget

- 4.17. The HRA is primarily funded from housing rents from tenants. The government guidance on rent setting states that rent increases can be set based on Consumer Price Inflation (CPI) + 1%. The September CPI announcement, which is the period specified for the rent increase calculation for the following year, is not due until mid-October.
- 4.18. At the last refresh of the HRA 30-year Business Plan, reported to Cabinet and Council in February 2024, there was an expectation that approximately £3.7m of efficiencies would need to be identified to balance the HRA budget for 2025/26. Work is ongoing to formulate proposals to produce a balanced budget, which will be presented to

Budget and Corporate Scrutiny Management Board, Cabinet and Full Council in January and February 2025.

4.19. The Council will consult on any significant changes to HRA spend with the Tenant and Leaseholder Scrutiny Group, which meets a minimum of four times per year. The purpose of this group is to work in partnership with the Council's Housing team to ensure that policies, procedures, and services meet all regulatory requirements and are outcome focused, improving, quality of service, value for money and transparency. Additionally, the Council publishes HRA income and expenditure information within the Tenants Annual Report, which is available to all tenants and which feedback is encouraged upon. The next meeting of the Tenant and Leaseholder Scrutiny Group is arranged for 18th October 2024.

5. Alternative Options

5.1. The Council is legally required to set a balanced budget by March each year. There are no legal alternative options other than to consult on a range of expenditure reductions and/or income generation measures that achieve a balanced budget for the General Fund.

6. Implications

Resources:	The Council's Medium Term Financial Strategy provides forecasts of net expenditure and funding for future years. It also presents a list of efficiency proposals that could be adopted in order to reduce net expenditure to match the forecast level of funding available.
Legal and Governance:	<p>This report forms a preparatory part of the process under the Council's legal obligation to set a balanced budget for 2025/26.</p> <p>A number of efficiency proposals outlined within the MTFS require consultation with the public and/or recognised trade unions and authority is sought through this report to commence relevant consultation exercises. Such consultation must take place in the formative stages of decision making, as is proposed in this report.</p>

	<p>In turn and under the provisions of the Local Government Finance Act 1992, the Council must consult with persons or persons representative of bodies subject to non-domestic rates each financial year and before the rates become due for payment. Any consultation activity must engage those directly affected by any proposed decision by providing sufficient information to allow for intelligent response and with adequate time to do so.</p> <p>The Local Government Act 1999 requires that the Council must consult with representatives of persons:</p> <ul style="list-style-type: none"> • liable to pay council tax, precepts or levies in respect of the authority; • liable to pay non-domestic rates in the authority area; • use or likely to use services provided by the authority; and • who have an interest in the area within which the authority carries out its functions. <p>The consultation outcomes must then be conscientiously considered by decision-makers.</p> <p>The process set out in this report provides clear and structured arrangements for consultation to take place in advance of 2025/26 and will allow for decisions to be made after the budget is set taking account of individual consultation outcomes. It must in turn be open to Cabinet not to proceed with an individual efficiency option as proposed in the MTF5 following consultation but, if so, compensatory efficiencies will need to be made to balance the Council's budget.</p>
Risk:	<p>The MTF5 and financial sustainability of the council is identified as a risk on the Strategic Risk Register, in that if the council is unable to identify sufficient efficiencies and put in place necessary policies, processes and actions to manage pressures, inflation and manage its plans, then this will impact on the council's financial resilience and its ability to</p>

	effectively discharge its statutory responsibilities, including the setting of a balanced budget for future years.
Equality:	The Equality Act 2010 obliges the Council to have due regard to its equality duties in the budget setting process. To achieve this, Equality Impact Assessments (EIAs) will be conducted on all efficiency options where required, ahead of the final options being put forward to Cabinet for approval.
Health and Wellbeing:	No specific implications arising from this report.
Social Value:	No specific implications arising from this report.
Climate Change:	No specific implications arising from this report.
Corporate Parenting:	No specific implications arising from this report.

7. Appendices

Appendix A – Medium Term Financial Strategy

8. Background Papers

General Fund and Housing Revenue Account (HRA) Budget and Capital Programme & Council Tax Resolution 2024/25