

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Cabinet</b> <b>19 February 2020</b>
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<b>Report title</b>	2020-2021 Final Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024	
<b>Decision designation</b>	RED	
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All Wards	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Alison Shannon Tel Email	Chief Accountant 01902 554561 <a href="mailto:alison.shannon@wolverhampton.gov.uk">alison.shannon@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Strategic Executive Board Council	10 February 2020 4 March 2020

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**Recommendations for decision:**

That Cabinet recommends that Council approves:

1. The net budget requirement for 2020-2021 of £248.2 million for General Fund services (paragraph 19.1).
2. The Medium Term Financial Strategy (MTFS) 2020-2021 to 2023-2024 as detailed in Table 7 and the budget preparation parameters underpinning the MTFS as detailed in Appendix 1 to this report.
3. A Council Tax for Council services in 2020-2021 of £1,681.58 for a Band D property, being an increase of 3.99% on 2019-2020 levels, which incorporates the 2% increase in relation to Adult Social Care (paragraph 9.6).

4. That work starts on developing budget reductions and income generation proposals for 2021-2022 onwards in line with the Five Year Financial Strategy (paragraph 19.5).
5. Revisions to the local council tax support scheme to introduce a disregard of any compensatory payments that are similarly disregarded in the prescribed scheme, and any transitional payments made to compensate for the loss of the severe disability premium in Universal Credit (paragraph 10.5).

That Cabinet is recommended to approve:

1. The changes to the 2020-2021 draft budget for General Fund services, since the draft budget was last reported to Cabinet on 16 October 2019, as detailed in sections 6 to 18.
2. That authority be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share of business rates for 2020-2021 and future years to be passported to the West Midlands Combined Authority (WMCA) (paragraph 11.6).
3. That approval be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, to respond to any consultation papers on the Business Rates Retention Scheme, Comprehensive Spending Review, Fair Funding Review and any other related consultation papers (paragraph 14.4).
4. That authority be delegated to the Cabinet Member for Resources and the responsible Cabinet Member of the relevant service area in question, in consultation with the Director of Finance and the relevant Director to allocate budgets from the Corporate Contingency for Budget Growth once business cases have been completed (paragraph 5.8).
5. That authority be delegated to the Cabinet Member for Resources and Cabinet Member for Education, in consultation with Director of Finance and Director of Children's Services, to approve changes to the local funding formula for Schools including method, principles and rules adopted (paragraph 18.4).
6. That authority continues to be delegated to the Cabinet Member for Resources in consultation with the Director of Finance to consider further opportunities to accelerate pension contribution payments to secure additional budget reductions (paragraph 6.7).
7. That £750,000 be transferred from the Efficiency Reserve to a new specific Climate Change Reserve (paragraph 7.6).
8. That authority be delegated to the Cabinet Member for City Environment and the Cabinet Member for Resources, in consultation with the Director of City Environment and the Director of Finance to allocate funds from the Climate Change Reserve (paragraph 7.6).

**Recommendations to note:**

That Cabinet is asked to note:

1. That the budget for 2020-2021 is in balance without the use of general reserves (paragraph 19.1).
2. That, in the opinion of the Director of Finance (Section 151 Officer), the 2020-2021 budget estimates are robust (paragraph 19.1).
3. That, in the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year (paragraph 20.6).
4. That a further £15.5 million needs to be identified for 2021-2022 rising to £20 million over the medium term to 2023-2024 in order to address the projected budget deficit (paragraph 19.5).
5. That, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council (paragraph 5.6).
6. That, there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and further increase the budget deficit forecast over the medium term (paragraph 5.5).
7. That, the overall level of risk associated with the 2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024 is assessed as Red (paragraph 21.1).
8. That Councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions (paragraph 26.7).

## **1.0 Purpose**

- 1.1 To present a balanced budget for 2020-2021 aligned to council plan priorities and an updated Medium Term Financial Strategy (MTFS) for the period up to 2023-2024, for recommendation to Full Council.

## **2.0 Background and Summary**

- 2.1 Since 2010-2011 despite the successive cuts in Council resources, which have led to significant financial challenges, the Council has set a balanced budget in order to deliver vital public services and city amenities. Over the last ten years the Council has identified budget reductions in excess of £235 million.
- 2.2 In order to respond to this financial challenge and the growing demand for services, the Council's strategic approach continues to be to align resources to Our Council Plan 2019-2024 and the Five Year Financial Strategy, which is detailed in section 3 of this report.
- 2.3 In March 2019 the Council set a balanced budget without the use of general reserves. At this time, the forecast deficit for 2020-2021 was £27.3 million. Cabinet has been updated throughout the year as work progressed to address the deficit. In October the report to Cabinet identified opportunities in line with the Five Year Financial Strategy and analysed the potential resources available to the Council following the Spending Round 2019 announcement. Cabinet approval was sought to acknowledge the updated assumptions on Corporate Resources, one-off funding opportunities and emerging pressures within Adult Services and Waste and Recycling Services. As a result, the remaining budget deficit to be identified for 2020-2021 reduced to £3.8 million.
- 2.4 Since October 2019, the 2020-2021 budget setting process has continued with the identification of further budget reduction proposals, emerging budget pressures and funding announcements as detailed in sections 4 to 18. In summary, a balanced budget for 2020-2021 is proposed without the use of general reserves. The budget is aligned to the Council Plan priorities and to emerging priorities relating to climate change and children and young people.
- 2.5 It is important to note that, the Council's General Fund Balance stands at £10 million, which is the minimum balance as determined in the Council's Reserves and Balances Policy. In addition, the Council holds specific reserves which are set aside to fund future planned expenditure. It is vital the Council continues to hold these reserves to mitigate the risk of uncertainty of any potential future expenditure and therefore it is not an option to use the funds to meet the budget deficit.
- 2.6 The report provides detail on the assumptions in the MTFS about the resources which will be available to the Council. Until such time as the Comprehensive Spending Review, Fair Funding Review and Business Rates Retention Review are concluded, it is incredibly difficult to provide an estimate. The Director of Finance recommends the MTFS to Cabinet as a reasonable forecast over the medium term but recognises that outcome of the reviews listed could have a significant impact on the financial position of the Council.

### 3.0 Our Council Plan 2019-2024

- 3.1 The Council's strategic approach to address the budget deficit continues to be to align resources to Our Council Plan 2019-2024 which was approved by Full Council on 3 April 2019.
- 3.2 Our Council Plan 2019-2024 sets out how we will deliver our contribution to Vision 2030 and how we will work with our partners and communities to be a city of opportunity. The plan includes six strategic priorities which come together to deliver the overall Council Plan outcome of 'Wulfrunians will live longer, healthier and more fulfilling lives.' Over the medium term, resources will continue to be aligned to enable the realisation of the Council's priorities of achieving:
- Children and young people get the best possible start in life
  - Well skilled people working in an inclusive economy
  - More good jobs and investment in our city
  - Better homes for all
  - Strong, resilient and healthy communities
  - A vibrant, green city we can all be proud of.
- 3.3 The Financial Strategy, approved by Council in March 2019, consists of five core principles underpinned by eight core workstreams. Using the Core Workstreams as the framework for the Financial Strategy detailed delivery plans are being developed all with a lead director. The Core principles and workstreams are:
- **Core Principles:**
    - **Focusing on Core Business.** Focus will be given to those activities that deliver the outcomes local people need and which align to our Council Plan and Financial Strategy.
    - **Promoting Independence and Wellbeing.** We will enable local people to live independently by unlocking capacity within communities to provide an effective and supportive environment.
    - **Delivering Inclusive Economic Growth.** We will continue to drive investment in the City to create future economic and employment opportunities.
    - **Balancing Risk.** We will ensure we base decisions on evidence, data and customer insight.
    - **Commercialising our Approach.** We will boost social value in our City by maximising local procurement spend with people and businesses.
  - **Core Workstreams:**
    - **Promoting Digital Innovation.** Improve access to digital services to empower local people to self-serve at a time and place that suits them whilst reducing 'traditional' operating costs.
    - **Reducing demand.** Through early intervention and closer collaboration with local people we aim to reduce demand for services and support greater independence and resilience.

- **Targeted Service Delivery.** Our efforts will be focused in the areas and places that need us the most and where we can deliver the best possible outcomes within the resources available.
- **Sustainable Business Models.** We will develop the most efficient and effective services possible, within the significant financial constraints we face, to meet the needs of local people.
- **Prioritising Capital Investment.** Aligned to our strategic plan, investment will focus on the priorities that deliver the best possible return and outcomes for local people.
- **Generating Income.** Better understanding the markets we operate in will enable us to develop new, innovative income generation opportunities with partners where appropriate.
- **Delivering Efficiencies.** By reviewing our resources, business processes and better using technology, we will deliver services which meet customer needs efficiently and cost-effectively.
- **Maximising Partnerships and External Income.** We will take a much more strategic role, working with our partners, to identify opportunities to collaborate, share resources, reduce costs and seize funding opportunities.

3.4 During 2019-2020 2 key areas of focus have developed for the Council. In July 2019, the Council declared a 'Climate Emergency' with a target to zero carbon by 2028. In January 2020, Cabinet approved the Youth Engagement Strategy. #YES. The budget presented in this report seeks to align the resources available to the Council to deliver these ambitious strategies. Section 7 provides further detail.

#### 4.0 Local Government Finance Settlement

- 4.1 On 20 December 2019, the Government announced the provisional local government finance settlement, referred to herein as the provisional settlement, for 2020-2021. A report to Cabinet on 22 January 2020 outlined the headlines from the settlement including: confirmation of the council tax referendum limit at 1.99% for 2020-2021, confirmation that local authorities with adult social care responsibility could raise an additional 2% in 2020-2021 via the adult social care precept, commitment to maintain the new homes bonus baseline growth at 0.4% for 2020-2021 but no legacy payments on the 2020-2021 allocations, and the confirmation of proposed formula for the distribution of the £1 billion social care funding announced in the September Spending Round 2019. The provisional allocation for Wolverhampton is £6.3 million.
- 4.2 Further to this, on 6 February 2020, the Secretary of State for the Ministry of Housing, Communities and Local Government gave a written statement on the Final Local Government Finance Settlement 2020-2021, referred to herein as the final settlement. We anticipate that the final settlement will be debated in the House of Commons shortly. The final settlement is largely in line the provisional settlement announcement.
- 4.3 Section 13 of this report provides further detail on forecast grant funding.

## **5.0 Medium Term Financial Strategy – Key Assumptions**

- 5.1 The major budget assumptions used in the preparation of the MTFs are set out in Appendix 1. Specific assumptions are set out in more detail in the following sections.
- 5.2 The 2019-2020 budget was the final year of the Comprehensive Spending Review 2015, which covered the parliamentary period to 2019-2020. In October 2019, Cabinet were informed of the uncertainty regarding the forthcoming Comprehensive Spending Review 2020, and the corresponding reforms to the Fair Funding Formula and Business Rates Retention due to the delays surrounding Brexit and the Leadership election process for a new Prime Minister.
- 5.3 On 4 September 2019, the Government announced the Spending Round 2019 which set out the Government's spending plans for 2020-2021 only. It was confirmed that the full multi-year Spending Review will take place in 2020 for funding post 2020-2021. The review will take into account the nature of Brexit and set out further plans for long term reform. It is envisaged that the Fair Funding Review and Business Rates Retention reforms will be addressed as part of the multi-year Spending Review.
- 5.4 It is anticipated that Government will start to release and consult upon elements of the Fair Funding formulae in exemplifications in the very near future.
- 5.5 It is important to note that whilst recent Government announcements have provided some clarity for the forthcoming financial year, the Council continues to face significant uncertainty over the medium term and it is particularly challenging to establish a medium term financial strategy beyond 2020-2021. However, work has been ongoing to project a forecast medium term position as detailed in this report. It is projected that the medium term budget deficit could be in the region of £20 million over the next three years. In order to project this potential deficit a number of assumptions have been made on the level of resources that will be available to the Council, as detailed in section 19 below. However, given uncertainties surrounding levels of resources for local authorities it is difficult to project the potential resources that will be available to the Council over the forthcoming Comprehensive Spending Review.
- 5.6 It is important to note that, due to external factors, budget assumptions remain subject to significant change. This could, consequently, result in significant alterations to the projected financial position facing the Council.
- 5.7 During the 2020-2021 budget setting process, a number of emerging pressures have been identified and continue to be kept under review. In order to be prudent and recognise those budget pressures, it is proposed that a Corporate Contingency for Budget Growth in the 2020-2021 budget be established, pending completion of the relevant reviews. The pressures recognised in this budget will be detailed in the relevant sections below.

5.8 Cabinet approval is therefore sought to delegate authority to the Cabinet Member for Resources and the responsible Cabinet Member for the service area in question, in consultation with the Director of Finance and the relevant Director to allocate budgets from the Corporate Contingency for Budget Growth once business cases have been completed. All budget allocations will be incorporated into Revenue Budget Monitoring updates to Cabinet (Resources) Panel during 2020-2021.

5.9 In the event that budgets included in the Corporate Contingency for Budget Growth are not required, the Director of Finance will seek to reduce the level of capital receipt flexibility utilised in the 2020-2021.

## 6.0 Pay Related Pressures

6.1 Detailed work has been undertaken to assess the likely impact of the National Living Wage, increments, proposed levels of pay award, increases in employer's National Insurance contributions, employer's pension contributions and auto-enrolment. The projected budget adjustments arising from the combined pay related pressures is detailed in Table 1, with further analysis provided in the paragraphs below.

**Table 1 – Pay Related Pressures**

	2020-2021	2021-2022	2022-2023	2023-2024
	£000	£000	£000	£000
Pay Award, Employers Pension, National Insurance and Annual Increments	(533)	5,074	5,250	5,426

### Pay Award

6.2 On 31 July 2019, Cabinet were informed that the Council were aware of ongoing discussions with Trade Unions at a national level to place a claim with regards to the 2020-2021 pay negotiations which would be in excess of the approved inflation of 2% included in the MTFS.

6.3 Given the ongoing negotiations surrounding the 2020-2021 pay deal, in order to be prudent, it is proposed that a pay award contingency totalling £1.3 million is held in the Corporate Contingency for Budget Growth in the 2020-2021 budget. This pay award contingency would allow for a further 1% pay award. In the event that pay negotiations result in a pay deal that is in excess of the assumed 2% uplift, this budget would be made available to services. However, if this budget is not required in 2020-2021, as detailed in paragraph 5.11, the Director of Finance would seek to use this budget to reduce the level of capital receipt flexibility assumed in the 2020-2021 budget.

6.4 In the event that pay negotiations result in a pay deal in excess of 3%, in year budget reductions would be required.

### Employer's Pension Payments

- 6.5 The Council, in the context of its role as a participating employer within the West Midlands Pension Fund (the Fund), has been subject to a recent triennial actuarial review which sets the employer pension contribution requirements over the period from 2020-2021 to 2022-2023. Discussions have been held with the Fund and its actuary over the last year and final agreement has been reached on the Council's employer pension payments to the Fund for the next three years. Due to strong investment performance by the Fund since the last actuarial valuation in 2016, the funding level for the Council has improved; this has resulted in lower total forecast contributions over the medium term – a combination of reduced past service deficit costs and increased future services contributions - a net budget reduction totalling £5.9 million in the MTFS in 2020-2021. The agreed payments have been built into this budget and the MTFS.
- 6.6 In 2018-2019, under Cabinet approval, the Cabinet Member for Resources in consultation with the Director of Finance approved an upfront actuarially discounted payment to West Midlands Pension Fund to cover employers pension contributions for 2018-2019 and 2019-2020 in order to reduce the total costs and secure budget reductions.
- 6.7 As a minimum, it is intended that the Council will make an annual payment in April of each year for the full year's forecast contributions, resulting in a 2.2% reduction in costs. The actual arrangements over the three year period, with no subsequent change until the next actuarial review, will need to be confirmed to the Fund by no later than the end of February 2020. This is reflected in the budget forecasts in this report. In accordance with delegated authority, the Cabinet Member for Resources in consultation with the Director of Finance will continue to consider further opportunities to accelerate contribution payments to secure additional budget reductions.

### Other Pay Costs

- 6.8 Further to this, detailed work has been undertaken to assess the likely impact of Auto Enrolment, employer's National Insurance contributions and incremental increases.

## 7.0 Budget Pressures

- 7.1 Table 2 below details budget growth that has been incorporated into the MTFS.

**Table 2 – Budget Pressures**

	2020-2021 £000	2021-2022 £000	2022-2023 £000	2023-2024 £000
Inflationary Pressures	5,507	2,706	2,626	2,626
Demographic and Demand Pressures	12,391	1,953	2,650	2,500
<b>Total</b>	<b>17,898</b>	<b>4,659</b>	<b>5,276</b>	<b>5,126</b>

- 7.2 Inflationary pressures include: utilities, the impact of the increases in the National Living Wage (NLW) in relation to external contracts and cost pressures within the Waste and Recycling Service.
- 7.3 The approved MTFS already included a provision for NLW increases in relation to external contracts following announcements made by the Government in previous years. The budget has been increased to reflect additional cost pressures across adult social care as a result of the increase in fees and charges. In addition, in December 2019, the Government announced that the NLW will increase from £8.21 per hour to £8.72 per hour for those over 25 years old from 1 April 2020; a 6.2% pay increase. In order to be prudent, it is proposed that a £500,000 contingency for NLW changes arising as a result of recent announcements be built into the Corporate Contingency for Budget Growth in 2020-2021, in the event that pay increases impact on external contracts.
- 7.4 In October 2019, Cabinet were informed of potential cost pressures within the Waste and Recycling Service. It detailed the financial implications of a restructure within the service taking place. Consultation is currently underway to revise the structure, working practices, terms and conditions of employment as well as policies and procedures. The consultation process has an implementation date of 1 April 2020. Therefore, the budget has been increased to reflect the costs associated with the restructure in 2020-2021.
- 7.5 In addition to this, City Assets have flagged a potential pressure relating to building compliance and reactive maintenance works that may result in a requirement to undertake works in 2020-2021. Work is currently underway to understand the situation in detail and proposals will come forward in the very near future. In order to be prudent, a £3 million budget has been built into the Corporate Contingency for Budget Growth. This budget will only be released upon completion of individual business cases which will be presented to Strategic Executive Board and Cabinet as appropriate.
- 7.6 In July 2019, the Council declared a 'Climate Emergency', noting the impact of climate change around the world, and announced commitment to tackling climate change and ensuring that all strategic decisions are in line with a shift to net carbon zero by 2028. To ensure that funds are available for climate change feasibility works, Cabinet approval is sought to transfer £750,000 from the Efficiency Reserve to a new specific Climate Change Reserve. In addition to this, Cabinet approval is also sought to delegate authority to the Cabinet Member for City Environment and the Cabinet Member for Resources, in consultation with the Director of City Environment and the Director of Finance to allocate funds from the Climate Change Reserve.
- 7.7 The Council has recently launched a new strategy designed to help children and young people in Wolverhampton reach their full potential. The Youth Engagement Strategy, #YES, presented to Cabinet on 22 January 2020, has been developed following extensive feedback from nearly 12,000 children and young people across the City, and will support eight to 18 year olds, and those up to 25 with special educational needs. The three-year strategy totalling £2 million, will be funded from a combination of existing resources, grants and contributions from reserves, and specific budget growth rising from £150,000 in 2020-2021 to £350,000 by 2022-2023 which has been incorporated into the MTFS.

- 7.8 As detailed in paragraph 5.7 above, a number of emerging pressures have been identified and continue to be kept under review. It is proposed that some of those pressures are recognised in the Corporate Contingency for Budget Growth in the 2020-2021 budget, pending completion of the relevant reviews.
- 7.9 In addition to this, a number of budget pressures have been identified throughout the current financial year in the revenue budget monitoring presented to Councillors. In order to be prudent those pressures have been recognised in the 2020-2021 budget and medium term financial strategy.
- 7.10 A full list of budget pressures that have been incorporated into the budget and medium term financial strategy can be found at Appendix 4.
- 7.11 In addition to this, the MTFs has been updated to reflect the forecast treasury management budget requirement over the medium term.

## **8.0 Corporate Resources**

- 8.1 As reported to Cabinet on 16 October 2019, it is important to note that whilst recent Government announcements have provided some clarity for the forthcoming financial year, the Council continues to face significant uncertainty over the medium term and it is particularly challenging to establish a medium term financial strategy beyond 2020-2021.
- 8.2 In the Spending Round 2019 announcement it was confirmed that the full multi-year Spending Review will take place in 2020 for funding post 2020-2021. The review will take into account the nature of Brexit and set out further plans for long term reform.
- 8.3 In order to project the potential budget challenge faced by the Council, a number of assumptions have been made on the level of resources that will be available, as detailed in the following sections.
- 8.4 Due to the uncertainty regarding potential resources that will be available to the Council over the forthcoming Comprehensive Spending Review period, it is important to note that at the point information becomes available, it could, consequently, result in alterations to the financial position facing the Council.

## **9.0 Council Tax**

- 9.1 The Council Tax Base and NDR (Business Rates) Net Rate Yield 2020-2021 report was presented to Cabinet on 22 January 2020. Cabinet approved the Council Tax Base for 2020-2021 at 64,726.80 Band D equivalents.
- 9.2 In the Autumn Spending Review 2015 the Government announced that it is to allow local authorities with adult social care responsibilities, the power to raise an additional 2% through Council Tax to fund adult social care. The 2% would be in addition to the Council Tax referendum limit and would need to be used for adult social care only.

- 9.3 Government confirmed in the final settlement 2020 that local authorities with adult social care responsibility could raise an additional 2% in 2020-2021 via the adult social care precept, this is in line with assumptions built into the MTFS.
- 9.4 Further to this, in the final settlement 2020 the Government confirmed the reduction in the Council Tax referendum limit for local authorities from 3% to 2%. This would therefore enable the Council to increase Council Tax by a maximum of 3.99% in 2020-2021; the sum of 1.99% Council Tax increase plus a 2% adult social care precept.
- 9.5 Taking account of the above, this report recommends an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 2%, totalling 3.99%.
- 9.6 Table 3 details the resulting impact on the level of the Council element of Council Tax for a Band D property in 2020-2021. Details of the impact on all bands can be found in Appendix 2.

**Table 3 – Council element of Council Tax for Band D Property in Wolverhampton**

<b>Band D</b>	<b>£</b>
2019-2020 Council Element of Council Tax (including adult social care)	1,617.06
1.99% increase	32.18
2% Adult Social Care Precept	32.34
	<b>1,681.58</b>

- 9.7 It is projected that income from Council Tax will rise in subsequent years, based upon the latest collection rates and tax base. Projections in the MTFS assume that Council Tax will continue to increase by 1.99% in each financial year, whilst the tax base is anticipated to rise by 1%. The MTFS also assumes that Government will continue to allow local authorities with adult social care responsibilities to raise an additional 2% via the adult social care precept to support adult social care over the medium term.

## **10.0 Council Tax Reduction Scheme**

- 10.1 Since the abolition of the national council tax benefit scheme in 2013, the Council has been responsible for designing its own scheme of council tax support for people of working age. The Government continues to set the rules for people of pensionable age. The introduction of Universal Credit and changes to the prescribed pensioner scheme necessitate some minor adjustments to the local scheme.
- 10.2 The Government has launched two new compensation schemes; the Windrush Compensation Scheme and the Grenfell Tower Residents' Discretionary Fund. The prescribed pensioner scheme disregards any payments from these funds, and they join several others that have been created over recent years, payments from which are also disregarded when calculating council tax support.

- 10.3 Rather than asking Cabinet to decide on each individual compensatory fund that may be created in the future, it is recommended that the Council's local scheme adopts the same position as the 'Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012', as amended.
- 10.4 Unlike Housing Benefit, Universal Credit does not have an equivalent of the severe disability premium. This means that some severely disabled claimants who moved across to Universal Credit were left worse off. Last year the Department for Work and Pensions introduced a scheme of transitional payments to compensate those people that had already transferred.
- 10.5 It is therefore recommended that Cabinet also approve a revision to the local council tax support scheme to introduce a disregard of any transitional payments to compensate for the loss of the severe disability premium in Universal Credit.
- 10.6 The financial impact of disregarding these types of payment is negligible, with no anticipated increase in costs.

## **11.0 Business Rates**

- 11.1 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Ministry for Housing, Communities and Local Government (MHCLG) by the deadline of 31 January 2020. In October 2016, Cabinet approved that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority (WMCA), will participate in a business rates retention pilot from April 2017, on a no financial detriment basis. The continuation of this arrangement to 2020-2021 was noted in the provisional settlement in December 2019. As a result of entering into this pilot, the Council will retain 99% of the business rates but no longer receive Revenue Support Grant and instead receive a Top Up Grant adjustment to account for the net effect of the changes.
- 11.2 On 22 January 2020, Cabinet approved the Collection Fund Business Rates Net Yield for 2020-2021 at £74.5 million. Of the £74.5 million net rate yielded by business rates forecast to be collected in 2020-2021 the Council would retain £73.7 million under the 99% business rate retention scheme pilot.
- 11.3 There are a number of Business Rates policies that the Government have stipulated for which the Council is reimbursed through Section 31 of the Local Government Act 2003. These include a cap of 2% on the small business multiplier and the cost of doubling of Small Business Rate Relief. Grant income totalling £11.7 million is projected for 2020-2021 based upon the NNDR1 form returned to MHCLG by 31 January 2020.
- 11.4 One part of the West Midlands Devolution Deal included the WMCA receiving the real terms growth in the central share of business rates, which came into effect from 1 April 2016 onwards. This was the share that was previously held by central government

- 11.5 There is some complexity in identifying the true business rates growth between years due to business rates appeals and the 2017 revaluation, however an approach to allocate the growth in the central share for 2017-2018 and 2019-2020 has been agreed with the WMCA. The assumed growth of £6.0 million attributable to the WMCA in 2019-2020, in line with the Investment Plan assumptions, has been apportioned for each authority pro rata to the aggregate Rateable Value at the start of the year, resulting in a contribution from Wolverhampton in the region of £455,000 (in 2018-2019 the contribution was £342,000).
- 11.6 The basis for distribution for 2020-2021 has yet to be agreed. It is therefore proposed that Cabinet delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share for 2020-2021 and future years to be passported to the WMCA.
- 11.7 It is important to note, in order to be prudent, the current level of business rates retention (99%) for the Council has been assumed over the medium term period to 2023-2024, with only inflationary growth in the business rates multiplier assumed in the MTFS.
- 11.8 It is envisaged that the Fair Funding Review and Business Rates Retention reforms will be addressed as part of the multi-year Spending Review. The Government aim to move to 75% business rate retention for all local authorities. Levels of funding will therefore change if this proposal is realised, however a corresponding adjustment against the level of Top Up grant will also be realised.

## 12.0 Collection Fund Estimated Outturn

- 12.1 On 22 January 2020 Cabinet received a report detailing the estimated outturn on the Collection Fund for 2019-2020 which consisted of a projected cumulative surplus in the region of £526,000 Council Tax and a projected cumulative deficit in the region of £122,000 on Business Rates.
- 12.2 The total Collection Fund accumulated surplus in 2019-2020 is projected to be in the region of £404,000, of which the Council will be expected to retain a surplus of approximately £605,000. This is the net sum of the forecast surplus relating to Council Tax and forecast surplus relating to Business Rates as detailed in the Table 4 below and Appendix 3.

**Table 4 – Retained Element of Collection Fund Deficit**

Elements of Collection Fund	(Surplus) / Deficit £000	Retained %	Retained (Surplus) / Deficit £000
Council Tax	(526)	88.4%	(465)
Business Rates*	122	99.0%	(140)
<b>Total</b>	<b>(404)</b>		<b>(605)</b>

\* A prior year adjustment on the business rates element of the collection fund has resulted in an element payable by MHCLG.

## 13.0 Grants

### **New Homes Bonus**

- 13.1 The Government have confirmed that the baseline growth level for New Homes Bonus will remain at 0.4% for 2020-2021, however, there are no legacy payments on the 2020-2021 allocations. The Council's final allocation was confirmed at £1.6 million.
- 13.2 The Government provided illustrative New Homes Bonus allocations to 2022-2023 in the final settlement. In order to be prudent, the MTFS reflects the illustrative New Homes Bonus allocations for financial years to 2022-2023. However, it was announced in the provisional settlement that whilst the Government remains committed to incentivising housing growth and will consult on the future of the housing incentives in the spring. There is no assumption about additional New Homes Bonus being awarded for growth in 2020-2021 onwards.

### **Top Up Grant**

- 13.3 As detailed in paragraph 11.1 above, the Council is part of the West Midlands pilot for 100% business rates retention and will therefore continue to no longer receive Revenue Support Grant but receive an amended Top Up Grant to reflect the business rates retention model; as was the case in 2017-2018 and 2018-2019. Top Up Grant for 2020-2021 has been uplifted by inflation, this is an increase of £426,000, above current the assumptions previously built into the MTFS, this takes the 2020-2021 allocation to £26.6 million. The MTFS assumes the continuation of grant at this level for future years to 2023-2024.

### **Social Care Grants**

- 13.4 On 17 October 2019, Cabinet were informed that the Government had announced that additional grant funding totalling £1 billion would be made available to local authorities in 2020-2021 for adult and children's social care. The final settlement confirmed the Council's allocation at £6.3 million for 2020-2021. Government also confirmed that this additional funding would be made available during the current parliamentary period.
- 13.5 Government have also confirmed the roll forward of the 2019-2020 Social Care Support, Winter Pressures and the Improved Better Care Fund grants. The Council's final allocations total £16.7 million, this is in line with the current assumptions built into the MTFS.
- 13.6 The LGA have published their illustration of the proposed new adult social care relative needs formulas, initial analysis of these results show Wolverhampton could see a reduction in funding. Therefore, in order to be prudent, one-off grants such as the additional Improved Better Care Fund Grant, Winter Pressures Grant and 2019-2020 Social Care Grant which have previously been announced in-year have not been assumed as receivable after 2020-2021. This has reduced the assumed funding allocation by £5.7 million.

### **Section 31 Grant – Business Rates Retention**

- 13.7 Section 31 Grant compensates the Council for an element of mandatory business rates reliefs and the cap on inflationary increases on the business rates multiplier. As detailed in paragraph 11.3, Section 31 grant income totalling £11.7 million is projected for 2020-2021 based upon the NNDR1 form returned to MHCLG by 31 January 2020.
- 13.8 The MTFs currently assumes that this grant will continue at the 2020-2021 level over the medium term period to 2023-2024.

### **Other Grants**

- 13.9 In June 2015, following the closure of the Independent Living Fund (ILF), the Government agreed to continue funding pre-existing ILF arrangements until the end of 2019-2020. The provisional settlement confirms the continuation of this arrangement for 2020-2021 only. This is in line with the assumptions built into the MTFs.
- 13.10 The Troubled Families Programme was due to end in March 2020. In January the Government announced an additional £165 million to support the continuation of the Troubled Families Grant for 2020-2021. The grant is split into three elements, service transformation, attachment fee, and payment by results. The indicative service transformation fee for the Council is £400,000. The grant payments for the attachment fee and payment by results are dependent on the number of families supported. The maximum grant for these elements is £145,000 for the attachment fee and £532,000 for payment by results.

### **14.0 Comprehensive Spending Review and Fair Funding Review**

- 14.1 As reported to Cabinet on 16 October 2019, it is important to note that whilst recent Government announcements have provided some clarity for the forthcoming financial year, the Council continues to face significant uncertainty over the medium term and it is particularly challenging to establish a medium term financial strategy beyond 2020-2021.
- 14.2 As detailed in paragraph 5.2, the Comprehensive Spending Review 2020, the Fair Funding Review which was due to take place in 2019 was delayed due to the Brexit negotiations and the Leadership election process. It is anticipated that Government will begin to release and consult upon elements of the Fair Funding formulae in exemplifications in the near future.
- 14.3 In a speech at the LGA's local government finance conference 2020, the Local Government Minister announced that the successful delivery of the Fair Funding Review will require everyone to recognise the need for trade-offs which will be necessary in order to deliver the review as planned, and compromise will be needed to ensure that the formula works for everyone. There therefore continues to be significant uncertainty over the level of resources that will be made available to local authorities over the medium term.

14.4 Cabinet approval is sought to delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance to respond to consultation papers on the Business Rates Retention Scheme, Fair Funding Review, Comprehensive Spending Review and any other related papers.

## **15.0 Budget Consultation and Scrutiny**

15.1 On 16 October 2019, Cabinet delegated authority to the Cabinet Member for Resources in consultation with the Director of Finance, to finalise the details of the Council's budget consultation process as part of the budget setting process for 2020-2021. The budget consultation period was open from 21 October 2019 to 17 January 2020, however due to the announcement of the General Election in December 2019 and compliance with the Code of Practice during the pre-election period, the budget consultation opened a little later to the public than originally anticipated on 17 December 2019.

15.2 This specific budget consultation process formed part of the continuous engagement with key stakeholders throughout the year at various events and focussed on understanding stakeholder's priorities for Wolverhampton.

15.3 An online survey and face to face stakeholder engagement meetings were used to gather responses during this consultation period.

15.4 In addition to the wider budget consultation meetings, stakeholder engagement meetings were held with the Business Community and the city's Youth Council, where various questions were posed about Council services.

15.5 During November 2019, each Scrutiny Panel was asked to scrutinise the budget relevant to the remit of the Panel and how it is aligned to the priorities of the Council, and the Draft Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024 including budget proposals that were relevant to the remit of the Panel. All these views and observations were then reported to Scrutiny Board on 17 December 2019 and Cabinet (Resources) Panel on 4 February 2020.

15.6 The results of budget consultation were also reported to Cabinet (Resources) Panel on 4 February 2020.

## **16.0 Budget Reduction Proposals**

16.1 Since October 2019, work has been ongoing across the Council to review and make revisions to existing budget reduction proposals as detailed in the following paragraphs.

16.2 Table 5 provides a summary of the financial impact of the proposed revisions.

**Table 5 – Revisions to Budget Reduction and Income Generation Targets**

	2020- 2021 £000	2021- 2022 £000	2022- 2023 £000	2023- 2024 £000
<b>Re-phasing of proposals</b>				
- Transforming Children’s Services	(250)	250	-	-
- Transforming Adult Services	2,000	-	(1,000)	(1,000)
- Adult Education – Target to break even	45	45	(30)	(30)
<b>Revisions – Deletion of budget reduction Proposals</b>				
- Staff Terms and Conditions	1,200	-	-	-
- Traded Services to Schools and other LAs	200	-	-	-
- Apprentices Review	40	-	-	-
<b>Revised total</b>	<b>3,235</b>	<b>295</b>	<b>(1,030)</b>	<b>(1,030)</b>

### Reducing Demand

- 16.3 Wolverhampton has seen significant transformation within its Children’s Services in recent years. Under the Transforming Children’s Services Programme, the Council continues to focus on improving outcomes for children and young people so that the right children have the right support at the right time. It is therefore proposed to accelerate £250,000 previously approved budget reduction target from 2021-2022 to 2020-2021.
- 16.4 In October 2019, Cabinet were informed of emerging pressures within Adult Services. The Council continue to monitor the potential costs pressures across Adult Services. Due to increased costs as a result of more complex needs and demographic growth, it is proposed to reprofile the budget reduction target for Transforming Adult Services into future years.

### Sustainable Business Models

- 16.5 On 31 July 2019, it was reported that the Council needed to enable a terms and conditions offer that is affordable and sustainable and needed to reduce the pay bill by approximately £1.2 million in both 2020-2021 and 2021-2022. Given the recent permanent changes to terms and conditions, which saw the implementation of three days mandatory unpaid leave per year for council employees, it is proposed to pause any further changes to terms and conditions in 2020-2021, which would remove the budget reduction target of £1.2 million in 2020-2021. The council value the contribution employees make in delivering the priorities of the council, therefore amending terms and conditions is always a last resort. However, due to the uncertainty on future funding, there will need to be review in future years. Discussions with Trade Unions will continue to review the package of terms and conditions for future years.

- 16.6 It is proposed to re-phase elements of the budget reduction targets for Adult Education from 2020-2021 and 2021-2022 to future years to reflect the current anticipated delivery timescales.
- 16.7 A review of the Senior Management Structure is currently underway, following two Directors leaving to pursue other opportunities. It is anticipated that this review will realise in year budget reductions which will be reported in future Revenue Budget Monitoring reports to Councillors.

### **Generating Income**

- 16.8 In July 2019, it was anticipated that the Council would be able to increase income generation by £200,000 through an improved offer of traded services to schools. Following a review, it is proposed to delete this income generation proposal.

### **Efficiencies**

- 16.9 In July 2019, it was anticipated that a budget efficiency totalling £40,000 could be achieved by a new approach to funding apprentices. Following a review of this proposal, it is proposed that this efficiency proposal be removed from the 2020-2021 budget pending scheme development.
- 16.10 During the 2020-2021 budget setting process, concerns have been raised about potential slippage on the original timescales for a few budget reduction and income generation proposals. At this stage, it is deemed prudent to hold a contingency for slippage on proposals in the Corporate Contingency for Budget Growth. The specific budget reduction and income generation proposals will remain under review.

## **17.0 Capital Receipts Flexibilities and Other One-Off Funding Sources**

- 17.1 In 2016-2017 the Government allowed councils to use new capital receipts from April 2016 to March 2019 to pay for transformation work that is designed to make revenue savings. The provisional settlement 2018 announced the continuation of this flexibility for a further three years.
- 17.2 On 16 January 2018, Cabinet (Resources) Panel approved that capital receipts flexibilities are utilised beyond 2018-2019 to enable further transformation of services to deliver efficiencies.
- 17.3 On 31 July 2019, Cabinet approved the draft budget strategy which included capital receipts and other one-off funding sources totalling £10 million and £5 million in 2020-2021 and 2021-2022 respectively.
- 17.4 As part of the detailed budget setting process, a number of corporate budget efficiencies in 2020-2021 have been identified, primarily arising as a result of the historic non-requirement of the auto-enrolment pot which has been held for the auto-enrolment of employees into the pension scheme, totalling £1.9 million. Linked to this, the Director of Finance currently anticipates that the Council will see a net underspend against the 2019-2020 budget. It is therefore proposed that the net underspend in 2019-2020 be transferred into a specific reserve to support the 2020-2021 budget strategy and reduce the level of capital receipts to pay for revenue costs of transformational projects.

- 17.5 The Capital Programme, as presented to Councillors for approval at this meeting, includes assumptions about the level of capital receipts to be generated in 2020-2021 and 2021-2022 and the use of capital receipts to pay for revenue costs of transformational projects that are designed to make revenue budget reductions. This is also reflected in the MTFs.
- 17.6 Throughout the year, capital receipts generated will be reviewed and assessed to ensure that capital receipts are applied in the most effective way.

## **18.0 Local Funding Formula for Schools**

- 18.1 In April 2018, a new national schools funding formula was implemented, and 2018-2019 was the first year of a transitional period of implementation of a National Funding Formula (NFF) for schools.
- 18.2 2020-2021 is a continuation of this implementation period and Local Authorities are still required to set a local funding formula. In October 2019, the Department of Education published indicative funding levels for 2020-2021 Dedicated Schools Grant (Schools Block) (DSG). On 19 December 2019, the Department for Education made a further announcement regarding the 2020-2021 allocations.
- 18.3 The Council is required to approve amendments to the local funding formula in line with the guidance and recommendations from Schools Forum. A formal consultation exercise was undertaken from 14 to 29 November 2019, and the outcome was reported back to Schools Forum in December 2019. Schools Forum on 20 January 2020 approved the formula for schools.
- 18.4 In line with the Schools Revenue Funding 2019-2020 Operational Guidance, delegation of authority to the Cabinet Member for Resources and Cabinet Member for Education, in consultation with the Director of Finance and Director of Children's Services is sought to approve proposed changes to local funding formula including method, principles and rules adopted.

## **19.0 Updated Budget and Medium Term Financial Strategy**

### **Budget 2020-2021**

- 19.1 The net budget requirement for 2020-2021 for the General Fund Services is £248.2 million. In the opinion of the Director of Finance (Section 151 Officer) the 2020-2021 budget estimates are robust. The Council's proposed budget for 2020-2021 does not require the use of general reserves in order set a balanced budget.
- 19.2 The Council's proposed budget for 2020-2021 is shown at Table 6.

**Table 6 - Draft 2020-2021 Budget**

<b>Division</b>	<b>2020-2021 Draft Net Controllable Budget £000</b>
Adult Services	68,307
Children's Services	53,818
Chief Executive	183
City Assets and Housing	9,287
City Environment	27,581
Corporate Accounts	48,748
Communications and External Relations	948
Deputy Chief Executive	4,684
Education and Skills	271
Finance	14,026
Governance	6,078
Public Health	776
Regeneration	6,282
Strategy	7,234
<b>Total Net Budget Requirement</b>	<b>248,223</b>

**Medium Term Financial Strategy 2020-2021 to 2023-2024**

- 19.3 Table 7 details the MTFs projections for the period to 2023-2024. It incorporates extensive budget preparation work that has been ongoing in recent months for the period up to 2023-2024, in addition to those adjustments arising as a result of changes in assumptions, as detailed in this report.
- 19.4 The table details incremental changes to forecast expenditure, starting from the base position of the 2019-2020 budget. The forecast expenditure is then compared with anticipated resources available to arrive at the projected deficit.
- 19.5 The Council is now faced with finding further projected budget reductions estimated at £15.5 million in 2021-2022, rising to £20 million over the medium-term period to 2023-2024. Work to develop budget reduction and income generation proposals for 2021-2022 onwards in line with the Five Year Financial Strategy will continue.
- 19.6 As detailed in section 5, due to the uncertainty the Council currently faces, it is particularly challenging to establish a MTFs beyond 2020-2021. Expenditure forecasts include significant estimates of growth in social care due to demand and the rising costs of services, clearly any change to these estimates will have a significant impact on the forecast budget deficit over the medium term. These key estimates, along with all others, will be refined as more information is available.

- 19.7 A number of assumptions have been made with regards to level of resources that will be available to the Council. It is important to note that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Sections 8 to 14 outline the current assumptions in respect to grants and tax raised locally. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and further increase the budget deficit forecast over the medium term.
- 19.8 Work has already started to identify additional budget reductions to address the projected budget deficit of £20 million over the medium term. It is proposed an update on progress on tackling the projected deficit is reported to Cabinet in July 2020.
- 19.9 It is important to note that the updated projected budget deficit assumes the achievement of budget reduction, income generation and financial transaction proposals amounting to £8.8 million over the four-year period from 2020-2021 to 2023-2024. Having identified budget reductions in excess of £235.0 million over the last ten financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.

**Table 7 - Medium Term Financial Strategy 2020-2021 to 2023-2024**

	<b>2020- 2021 £000</b>	<b>2021- 2022 £000</b>	<b>2022- 2023 £000</b>	<b>2023- 2024 £000</b>
<b>Previous Years Net Budget Brought Forward</b>	234,934	248,223	261,769	273,394
<b>Increasing / (Decreasing) Cost Pressures</b>				
- Pay Related Pressures	(533)	5,074	5,250	5,426
- Treasury Management	1,436	3,321	379	-
- Budget Growth	17,898	4,659	5,276	5,126
- Budget Reduction, Income Generation & Financial Transactions	(5,512)	492	720	(4,480)
- Net Impact on changes to specific grants	-	-	-	-
<b>Net Budget (Before Use of Resources)</b>	<b>248,223</b>	<b>261,769</b>	<b>273,394</b>	<b>279,466</b>
<b>Projected Corporate Resources</b>				
- Council Tax (including Adult Social Care Precept)	(108,843)	(114,318)	(120,068)	(126,107)
- Enterprise Zone Business Rates (including use of related reserve)	(2,700)	(1,530)	(1,490)	(1,450)
- Top Up Grant	(26,578)	(26,578)	(26,578)	(26,578)
- Business Rates (net of WMCA growth payment and Collection Fund deficit)	(73,769)	(74,199)	(75,703)	(77,237)
- New Homes Bonus	(1,614)	(568)	(265)	-
- Section 31 Grant – Business Rates support	(11,703)	(11,703)	(11,703)	(11,703)
- Improved Better Care Fund	(12,947)	(11,000)	(11,000)	(11,000)
- Winter Pressures – Adult Social Care	(1,376)	-	-	-
- Social Care Grant	(8,693)	(6,342)	(6,342)	(6,342)
	<b>(248,223)</b>	<b>(246,238)</b>	<b>(253,149)</b>	<b>(260,417)</b>
<b>Projected Budget Annual Change in Budget Deficit / (Surplus)</b>	-	<b>15,531</b>	<b>4,714</b>	<b>(1,196)</b>
<b>Projected Cumulative Budget Deficit</b>	-	<b>15,531</b>	<b>20,245</b>	<b>19,049</b>

## **20.0 General Fund Reserves**

20.1 Due to the projected financial challenges facing the Council over the medium term, combined with the budget risks, reserves should only be called on in very specific circumstances and are not a viable funding option to reduce the projected budget deficit over either the short or longer term.

## **20.2 General Fund Balances**

20.3 The Council's General Fund Balance stands at £10 million; this is the minimum balance as determined in the Council's Reserves and Balances Policy. As detailed in paragraph 19.1 the Council is able to set a balanced budget for 2020-2021 without the use of General Fund Reserves.

20.4 Emphasis therefore continues to be placed on identifying budget reduction and income generation proposals to meet the potential budget deficit over the medium term as detailed in Table 7 without calling on general reserves.

## **20.5 Specific Reserves**

20.6 Specific reserves represent monies set aside by the Council to fund future expenditure plans. In the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year. The Director of Finance has given regard to the data provided through the CIPFA Resilience Tool when assessing reserve levels. Consideration has been given to the movement in the levels of reserves over the last few years, the anticipated future drawdown of specific reserves and the level of Corporate Specific Reserves as detailed below (in addition to the General Fund Balance discussed in paragraph 20.3).

20.7 The specific utilisation of reserves is subject to approval by Cabinet (Resources) Panel. In addition, the Specific Reserves Working Group (a sub group of Our Council Scrutiny Panel) review and scrutinise the balances and movements in the Council's specific reserves to ensure that they are appropriately established and required. The group make recommendations or comments to Cabinet on matters arising from the review and scrutiny of specific reserves. Table 8 below details the level of the specific reserves held by the Council at 31 March 2019 and the anticipated balances at 31 March 2020. In addition, there are other specific reserves which are administered by the Council but that have a specific criteria for allocation.

**Table 8 – Specific Reserves by Division**

<b>Directorate</b>	<b>Actual Balance as at 1 April 2019 £000</b>	<b>Forecast Net Use / (Contribution) 2019-2020 £000</b>	<b>Forecast Balance as at 31 March 2020 £000</b>
Adult Services	(4,964)	4,300	(664)
Children's Services	(190)	-	(190)
City Assets and Housing	(125)	53	(72)
Corporate	(30,948)	5,726	(25,222)
Finance and Strategy	(2,811)	292	(2,519)
Public Health	(4)	-	(4)
Regeneration	(1,446)	579	(867)
<b>Total</b>	<b>(40,488)</b>	<b>10,950</b>	<b>(29,538)</b>

20.8 The Corporate Reserves set out in Table 9 below include the following reserves which are specifically set aside to provide capacity for developments to enable financial sustainability.

**Table 9 – Main Corporate Reserves**

<b>Corporate Reserves</b>	<b>Actual Balance as at 1 April 2019 £000</b>	<b>Forecast Net Use / (Contribution) 2019-2020 £000</b>	<b>Forecast Balance as at 31 March 2020 £000</b>
Efficiency Reserve	(6,484)	817	(5,667)
Budget Strategy Reserve	(9,069)	1,500	(7,569)
Transformation Reserve	(1,781)	139	(1,642)
Budget Contingency Reserve	(3,055)	900	(2,155)
<b>Total</b>	<b>(20,389)</b>	<b>3,356</b>	<b>(17,033)</b>

20.9 The budget includes multiple challenging targets which will be monitored closely, in the event that they are not delivered during the year then the Budget Contingency reserve will be utilised to protect general reserves / balances

## **21.0 Budget Risk Management**

21.1 Table 10 below provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology. The overall level of risk associated with the 2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024 is assessed as Red.

**Table 10 – General Fund Budget Risks 2020-2021 to 2023-2024**

<b>Risk</b>	<b>Description</b>	<b>Level of Risk</b>
Medium Term Forecasting	Risks that might materialise as a result of the impact of non-pay inflation and pay awards, uptake of pension auto enrolment, and National Living Wage.	Amber
Service Demands	Risks that might materialise as a result of demands for statutory services outstretching the available resources. This particularly applies to adults and childrens social care.	Red
	Risks that might materialise as a result of demands for non-statutory services outstretching the available resources.	Amber
Identification of Budget Reductions	Risks that might materialise as a result of not identifying budget reductions due to limited opportunity to deliver efficiencies.	Amber
Budget Management	Risks that might materialise as a result of the robustness of financial planning and management, in addition to the consideration made with regards to the loss of key personnel or loss of ICTS facilities	Green
Transformation Programme	Risks that might materialise as a result of not delivering the reductions incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering budget reductions and downsizing the workforce.	Amber
Reduction in Income and Funding	Risks that might materialise as a result of the multi-year Spending Review, which is due to be announced in 2020-2021, and reforms to Business Rates Retention and the Fair Funding Review.	Red
	Risks that might materialise as a result of income being below budgeted levels, claw back of grant, or increased levels of bad debts.	Amber
	The risk of successful appeals against business rates.	

Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise due to structural uncertainties including the impact of exiting the European Union.	Red
	Risks that might materialise as a result of changes to Government policy including changes in VAT and taxation rules.	Red

## **22.0 Evaluation of alternative options**

22.1 In determining the proposed Five Year Financial Strategy, consideration has been made to the deliverability of budget reduction and income generation proposals and budget pressures. If we were to not implement the budget strategy as proposed in this report, alternative options would need to be identified in order for the Council to set a balanced budget for 2020-2021.

## **23.0 Reasons for decisions**

23.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Council when it is making the statutory calculations required to determine its Council Tax. The Council is required to take this report into account when making its budget decision. The Chief Financial Officer's report must deal with the robustness of the budget estimates and the adequacy of the reserves for which the budget provides.

## **24.0 Financial Implications**

24.1 The financial implications are discussed in the body of the report.  
[MH/11022020/X]

## **25.0 Legal Implications**

25.1 The Council's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities and the likelihood of achieving any budget reduction proposals.

25.2 The legal duty to spend with propriety falls under S.151 Local Government Act 1972 and arrangements for proper administration of their affairs is secured by the S.151 Officer as Chief Financial Officer.

25.3 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Council when it is making the statutory calculations required to determine its Council Tax. The Council is required to take this report into account when making its budget decision. The Chief Financial Officer's report must deal with the robustness of the

budget estimates and the adequacy of the reserves for which the budget provides. Both are connected with matters of risk and uncertainty. They are inter-dependent and need to be considered together. In particular, decisions on the appropriate level of Reserves should be guided by advice based upon an assessment of all the circumstances considered likely to affect the Council.

- 25.4 The relevant guidance concerning reserves is Local Authority Accounting Panel Bulletin 77, issued by CIPFA in November 2008. Whilst the Bulletin does not prescribe an appropriate level of reserves, leaving this to the discretion of individual authorities, it does set out a number of important principles in determining the adequacy of reserves. It emphasises that decisions on the level of reserves must be consistent with the Council's MTFS, and have regard to the level of risk in budget plans, and the Council's financial management arrangements (including strategies to address risk).
- 25.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '**...make a report ... if it appears to her that the Authority, a committee or officer of the Authority, or a joint committee on which the Authority is represented**':
- (a) has made or is about to make a decision which involves or would involve the Authority incurring expenditure which is unlawful,
  - (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Authority, or
  - (c) is about to enter an item of account the entry of which is unlawful.
- 25.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to her that the expenditure of the Authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.
- 25.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2020-2021.  
[TS/06022020/S]

## **26.0 Equalities implications**

- 26.1 The council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives.
- 26.2 It is important to note, that this report provides a cumulative equality analyses response to the council's efficiency savings proposals set out within this report.
- 26.3 In the body of the report, we refer to high level efficiency saving proposals that are being put forward for approval and as such, those discussed here, in the large majority of cases, at this stage, there are no equality impact concerns.

- 26.4 This is a strategic analysis only. It will therefore be necessary to bring forward detailed proposals for each savings options, and where proposals are not yet complete and/ or, as more specific details of budget reduction and efficiency saving proposals emerge, (which do have an equality impact) each option will then be subject to a full equality analysis. It is only then we can identify with possible disproportionate impacts in relation to groups with protected characteristics. The EIA's will look to address potential mitigation where applicable and undertake specific consultation where required.
- 26.5 Where specific proposals are not yet complete, they will be dealt with via separate reports.
- 26.6 In conclusion, the council continues to make every effort to protect the most vulnerable as far as possible and respond to its duties under the Equality Act 2010. However, this strategic EIA recognises the significant challenge which the financial position presents for Wolverhampton. We will maintain a strong commitment to equality and ensure that EIA's undertaken at each savings proposal helps us to arrive at an informed decisions and to make the best judgement about how to target our resources effectively and fairly.
- 26.7 Councillors must continue to have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions. By considering the equalities evidence contained in the analysis above, in tandem with this report, Councillors will be in a position to comply with the requirements of the Duty and Act as well as their wider responsibilities in terms of setting a budget

## **27.0 Climate Change and Environmental Implications**

- 27.1 As detailed in the body of the report, the Council recently declared a 'Climate Emergency', noting the impact of climate change around the world, and announced commitment to tackling climate change and ensuring that all strategic decisions are in line with a shift to net carbon zero by 2028. To ensure that funds are available for climate change feasibility works, Cabinet approval is sought to transfer £750,000 from the Efficiency Reserve to a new specific Climate Change Reserve.

## **28.0 Health and Wellbeing Implications**

- 28.1 There are no relevant health and wellbeing implications arising from this report.

## **29.0 Corporate Landlord Implications**

- 29.1 As detailed in the body of the report, City Assets have flagged a potential pressure relating to building compliance and reactive maintenance works that may result in a requirement to undertake works in 2020-2021. Work is currently underway to understand the situation in detail and proposals will come forward in the very near future. In order to be prudent, a £3 million budget has been built into the Corporate Contingency for Budget Growth. This budget will only be released upon completion of individual business cases which will be presented to Strategic Executive Board and Cabinet as appropriate.

### **30.0 Human resources implications**

- 30.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form was issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce employee numbers by up to 500 across the Council in the period 1 April 2019 up to 31 March 2020. A further HR1 will be issued on 1 April 2020 for the period 1 April 2020 to 31 March 2021. This will identify a further 500 posts. The reductions will be through both voluntary redundancy and budget reduction targets which could result in compulsory redundancies.
- 30.2 The numbers included in an HR1 include posts held by colleagues who, as part of business review, redesign and/or restructure, need to be included, as they will need to be put at risk of redundancy. However, many of these employees will apply for and be offered jobs in the new structure or elsewhere in the organisation and therefore the number of employees leaving the authority is anticipated to be far fewer than the number declared on an HR1.
- 30.3 As detailed in the report, budgetary reductions will be made through efficiencies with new and smarter ways of working, income generation and transformation initiatives.
- 30.4 If any reductions in employee numbers are required, these will be achieved in line with the Council's HR policies. Compulsory redundancies will be mitigated as far as is possible through seeking voluntary redundancies in the first instance, and through access to redeployment.
- 30.5 The Council will ensure that appropriate support is made available to employees who are at risk of and selected for redundancy, and will work with partner and external agencies to provide support. If any of the budget reduction targets require service delivery to move from direct Council management to private, community or third sector providers, this may have implications under the TUPE regulations. If TUPE were to apply, appropriate consultation with relevant Trade Unions and affected employees, would take place.
- 30.6 There is on-going consultation with the trade unions on the impact of the Council's budgetary position and the targets being made to meet the challenges posed by it.

### **31.0 Schedule of Background Papers**

- 31.1 Collection Fund Estimated Outturn 2019-2020, report to Cabinet on 22 January 2020
- 31.2 Council Tax Base and Business Rates (NDR) Net Yield 2020-2021 and Provisional Finance Settlement, report to Cabinet on 22 January 2020
- 31.3 Budget 2020-2021 – Outcome of Budget Consultation and Scrutiny Review, report to Cabinet (Resources) Panel on 4 February 2020.
- 31.4 Draft Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024, report to Cabinet on 16 October 2019.

- 31.5 Draft Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024, report to Cabinet on 31 July 2019
- 31.6 2019-2020 Budget and Medium Term Financial Strategy 2019-2020 to 2023-2024, report to Full Council on 6 March 2019.

## **32.0 Appendices**

- 32.1 Appendix 1 – Budget Preparation Parameters
- 32.2 Appendix 2 – Council Element of Council Tax for 2019-2020 per Band
- 32.3 Appendix 3 – Collection Fund Outturn Analysis
- 32.4 Appendix 4 – Budget Pressures

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