

CITY OF WOLVERHAMPTON COUNCIL	Joint Cabinet and Cabinet (Resources) Panel 29 July 2020
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Report title	Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	16 July 2020

Recommendations for decision:

The Cabinet is recommended to approve:

1. The draft budget strategy linked to the Five Year Financial Strategy, including changes to corporate resource assumptions and growth and inflation, for inclusion in the Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024, to be reported to Cabinet in October 2020.
2. That work continues between August and October 2020 to further develop budget reduction and income generation proposals, in order to ensure that a balanced budget can be set for 2021-2022.
3. That progress on the development of budget reduction and income generation proposals be reported to Cabinet in October 2020 for approval to proceed to the formal consultation stage of the budget process.

4. That further options are explored between August and October 2020 to address the updated projected budget deficit of £8.7 million for 2021-2022 based on the Council's Five Year Financial Strategy.
5. The establishment of supplementary revenue expenditure budgets totalling £2,775,198 funded by the Covid-19 Emergency Funding Grant for Local Government. Delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve all virements required to support additional costs and loss of income relating to Covid-19.
6. The establishment of supplementary revenue expenditure budgets totalling £393,536 funded by the Local Authority Emergency Assistance Grant for Food and Essential Supplies and delegated authority to Cabinet Member for Resources, in consultation with the Director of Finance, to approve all virements required to allocate expenditure and grant to individual schemes.
7. Delegated authority to the Cabinet Member for Resources, in consultation with the Director of Finance to establish supplementary revenue budgets funded by grant and approve all virements required to support loss of income relating to Covid-19 once this allocation has been confirmed. As detailed in paragraph 6.5, the Government have announced a co-payment mechanism for irrecoverable sales, fees and charges income, and at this time of writing this report the full details of the scheme had not been released.
8. That external grant of £999,000 awarded for the Arthur Street Bridge Project be built into the Transport capital programme and that the borrowing previously set aside in contingency for this project be vired to the corporate contingency.
9. The capital budget of £1 million for the Towns Fund Project, funded by the external grant. Delegate authority to the Cabinet Member for City Economy and the Cabinet Member for City Environment, in consultation with the Director of Regeneration and the Director of City Environment, to approve virements to individual projects in order that projects can be implemented in an agile and timely manner.
10. The capital budgets of £110,000 for the Ring Road St Peters Crossing, and £193,282 for Active Travel Scheme, funded by external grant and delegate authority to the Cabinet Member for City Environment, in consultation with the Director of City Environment to approve any virements required to individual projects in order that projects can be implemented in an agile and timely manner. The establishment of supplementary revenue budgets totalling £44,096 funded by external grant to support the Active Travel Scheme. 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 establish revenue and capital budgets should the council be successful in securing further funding from this grant fund.

Recommendations for noting:

That Cabinet is asked to note:

1. That, a number of assumptions have been made with regards to the level of resources that will be available to the Council as detailed in section 8 of this report. It is important

to note that there continues to be a considerable amount of uncertainty with regards to future income 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.

2. The impact of Covid-19 has had and will continue to have a significant financial impact on the 2020-2021 budget and Medium Term financial Strategy.
3. That, if Government do not provide sufficient grant to fund the full financial implications of Covid-19, the council would need to identify in year efficiencies, which may impact on service delivery.
4. The Council will need to re-prioritise resources to fund the Recovery Strategy if further funding is not made available from Central Government.
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.
6. That the updated projected deficit assumes the achievement of budget reduction and income generation proposals amounting to £8.8 million over period 2020-2021 to 2023-2024.
7. That the 2021-2022 budget timetable will, as in previous years, include an updated report presented to Cabinet in October 2020 detailing budget reduction and income generation proposals that will be subject to formal budget consultation during October to December 2020. Further to this, an update on all budget assumptions and the Provisional Local Government Settlement will be presented to Cabinet by January 2021, with the final budget report due to be approved by Full Council in March 2021.
8. 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.

1.0 Purpose

- 1.1 The purpose of this report is to provide Councillors with an update to the Draft Budget and Medium Term Financial Strategy (MTFS) 2021-2022 to 2023-2024; the projected financial implications of the Covid-19 pandemic and agree the core principles and next steps that will be taken in order to address the financial pressures faced by the Council over the medium term.

2.0 Background

- 2.1 Since 2010-2011 despite 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 The Budget and Medium Term Financial Strategy (MTFS) 2020-2021 to 2023-2024 was presented to Full Council for approval on 4 March 2020. The Council was able to set a balanced budget for 2020-2021 without the use of General reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £15.5 million in 2021-2022 rising to around £20 million over the medium term to 2023-2024.
- 2.3 It is important to note that the budget was prepared pre the Covid-19 pandemic. At the time of reporting to Council, the full impact of Covid-19 was not anticipated and the impact on both the finances and operating environment could not have been foreseen.
- 2.4 The updated projected budget deficit assumes the achievement of budget reduction and income generation proposals amounting to £8.8 million over the four year period from 2020-2021 to 2023-2024. A number of these proposals are one-off and therefore are reversed out in the following year. The recurrent budget reduction and income generation targets over this period total £19.3 million.
- 2.5 In March 2020, Full Council approved that work started immediately to identify budget reduction and income generation proposals for 2021-2022 onwards, in line with the Five Year Financial Strategy, and for progress to be reported to Cabinet in July 2020.
- 2.6 On 8 July, Cabinet approved an increase to the Council's General Fund Balance by £3 million to a total value of £13 million. The level of reserves is approximately 5% of the 2020-2021 net budget which is in line with recommended best practice.
- 2.7 Whilst the Council does not have a high level of reserves, the favourable outturn position for 2019-2020 (reported to Cabinet on 8 July 2020), has enabled the council to protect the current level of reserves to some extent. This will help support the Council's short-term financial position but, it does not address the challenging financial position the Council finds itself over the medium term.

2.8 It should be noted that due to external factors, specially surrounding the covid-19 pandemic and Brexit, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.

2.9 This report provides an update on the progress towards the budget strategy for 2021-2022 and future years, whilst also detailing the emerging pressures that the Council currently faces in response the Covid-19 pandemic.

3.0 Five Year Financial Strategy

3.1 The Council's strategic approach to address the budget deficit is to align resources to Our Council Plan 2019-2024 which was approved by Full Council on 3 April 2019.

3.2 Our Council Plan 2019-2023 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.' 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 be proud of

3.3 Covid-19 has had a significant international, national and regional impact and will continue to do so over the short and medium term. The pandemic has made the challenges faced in our local economy much harder. As detailed in section 5, the Council is currently developing its Recovery Strategy, this may result in a change to the Council's priorities and the re-prioritisation of resources to support critical work.

3.4 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

4.0 Covid-19 Pandemic

- 4.1 In March 2020, the World Health Organisation categorised Covid-19 as a global pandemic. The Covid-19 pandemic has had a significant international, national and regional impact, and will continue to have, significant financial implications for the Council.
- 4.2 At the time of reporting to Council on 4 March 2020, the full impact of Covid-19 was not anticipated and the impact on both the finances and operating environment could not have been foreseen.
- 4.3 As detailed in paragraph 6.3, to-date, Wolverhampton has received £19.4 million in Government Covid-19 Emergency Grant funding, intended to help local authorities address the pressures they are facing in response to the Covid-19 pandemic.
- 4.4 The Council has played a proactive, key role in responding to the pandemic and implemented urgent crisis response and business continuity plans. Paragraph 7.3 of this

report lists some of the new initiatives delivered by the Council in response to the pandemic.

5.0 Recovery Strategy

- 5.1 Whilst the Council has been responding to the unprecedented crisis caused by the pandemic, it has also been planning for recovery. A City Recovery Co-ordinating Group has been established to drive the transition from emergency response to reset and recovery of services over the immediate and medium term.
- 5.2 Along with discharging the local authority's statutory responsibilities, our strategic recovery planning will consider whether there will be 'new normals' post Covid-19. It is anticipated that there will be longer-term implications for the Council's operating model, as the scale of post Covid-19 changes.
- 5.3 Our recovery planning will consider both short term and operational transition of services from lockdown, alongside a longer term strategic approach to shape future service delivery. Covid 19 has made the challenges we faced in our local economy much harder.
- 5.4 There are longer-term implications for the Council's operating model, as the scale of the change post Covid-19 will place new expectations and demands on service delivery.
- 5.5 The overarching principle is to deliver public value: Everything that we do will be to support and empower our communities in our city. This will be delivered through:
- **Work with our communities:** Re-shape with, and not to, our citizens, businesses and partners
 - **Right spatial level:** A collaborative approach, but one that can be mirrored at a local level to ensure a consistent framework
 - **Build on our strengths:** Utilise and build on the city's assets and opportunities, including existing groups, and planned major events and infrastructure
 - **Reshape and Reset:** We should not be limited by an aim of going back to 'how it was'. Our focus will be on the opportunity to reform, re-imagine and re-invent in order to 'reset' the norm
 - **Long term focus:** Programmes, projects and activity to address long-term impact and need and ensure a focus beyond the short-term interventions of an emergency response
 - **Interdependency:** Recognising the interconnected facets that will contribute to the city's overall recovery, and that none of those should be tackled in isolation.
- 5.6 Detailed work will continue to take place over next few months to understand the full financial implications of the Recovery Strategy. It will be necessary to consider to what extent we need to re-prioritise the use of our resources in order to fund the recovery work but also to seek external funding to support this critical work. It is anticipated that the Recovery Strategy will be presented to Cabinet in September.

6.0 Funding announcements

- 6.1 Over the last few months, Government have announced a number of one-off grants for 2020-2021 to support local authorities in their response to the Covid-19 pandemic.
- 6.2 To-date, Government have announced three tranches of an un-ringfenced revenue grant for local authorities; 'Covid-19 Emergency Grant Funding for Local Government'. This funding is intended to help local authorities address the pressures they are facing in the response to the Covid-19 pandemic across all services they deliver. In particular, this funding is intended to:
- Meet the increased demand for adult social care and enable councils to provide additional support to social care providers
 - Meet the extra demand and higher business-as-usual costs of providing children's social care.
 - Provide additional support for the homeless and rough sleepers
 - Support those at higher risk of severe illness from Covid-19
 - Meet pressures across the services, as a result of reduced income, rising costs and increased demand.
- 6.3 Local authorities' allocations for the third tranche grant was announced on 16 July 2020. Wolverhampton's allocation from tranche three was £2.8 million, taking the total allocation to-date to £19.4 million.
- 6.4 Approval to establishment of supplementary expenditure budgets for the first two tranches of grant were made under the Council's emergency decision-making powers. Approval is now sought in this report to establish supplementary revenue budgets totalling £2,775,198 funded by the Covid-19 Emergency Funding Grant for Local Government and delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve all virements required to support additional costs and loss of income relating to Covid-19.
- 6.5 Government have also announced a co-payment mechanism for irrecoverable sales, fees and charges income, with Government covering 75% of losses beyond the first 5% of planned income. Although at the time of writing this report, the full details of the scope of the scheme had not been published, initial guidance sets out the principles of the scheme to help guide local authorities in ensuring claims are responsible, and in line with the government intention.
- 6.6 The principles-based approach acknowledges that individual councils will be best placed to determine what losses they should be claiming for. The principles are:
- Transactional income from customers and clients receipts (excluding rents and investment income), which is generated from the delivery of services which was budgeted for in 2020-2021.

- As a result of Covid-19 and consequent reduction in economic activity, these income sources have been unavoidably lost and won't be recovered in the financial year.
 - Compensation is based on net losses, where a local authority has been able to reduce expenditure or has received over compensation for.
- 6.7 Approval is sought in this report to delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance to establish supplementary revenue budgets funded by this grant and allocate it against any losses of income as required.
- 6.8 It should be noted, that whilst the grants detailed in the paragraphs above are un-ringfenced and can be used to support both additional expenditure and income losses, the Government have not made any specific reference to funding commercial income losses.
- 6.9 Furthermore, local authorities are reporting losses against council tax and business rates income collected during 2020-2021. Due to the accounting treatment of these income streams (known as the collection fund) the impact of these losses is felt in the 2021-2022 budget. On 2 July 2020, Government announced that the repayment of collection fund deficits arising in 2020-2021 can be spread over a three year period (2021-2022 to 2023-2024). In addition, the Secretary of State has committed to consider the apportionment of irrecoverable Council Tax and Business Rates losses between central and local government. Further announcements will be made in the Spending Review.
- 6.10 On 10 June 2020, Government announced an emergency assistance grant fund for food and essential supplies for local authorities totalling £63 million to be distributed to local authorities to help those who are struggling due to Covid-19, as a one-off contribution in 2020-2021. Wolverhampton's allocation is £393,536. Approval is now sought to establish supplementary revenue expenditure budgets totalling £393,536 fully funded by grant and delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approval all virements to allocate expenditure and grant to individual schemes.
- 6.11 In addition to the revenue grants detailed in the above paragraphs, the Council has been awarded a number of capital grants.
- 6.12 The Council has been awarded £1 million from the Town Fund to encourage projects that will support towns in responding to the immediate challenge, including:
- Improvement to or new parks and green spaces and sustainable transport links
 - Improvements to town centres including repurposing empty commercial properties
 - Demolition or site remediation where this will have an immediate benefit.
- 6.13 Approval is sought in this report to approve the capital budget of £1 million for the Towns Fund Project, fully funded by grant, and delegate authority to the Cabinet Member for City Economy and the Cabinet Member for City Environment, in consultation with the

Director of Regeneration and the Director of City Environment, to approve virements to individual projects in order that projects can be implemented in an agile and timely manner.

- 6.14 In addition to the funding announcements above, funding has also been awarded from the Transport Infrastructure Investment Fund, Highways Maintenance Challenge Fund 2020-2021 for Arthur Street Bridge repairs. The Capital Programme for 2020-2021 as approved by Cabinet on 8 July 2020, has an approved budget of £1.2 million for Arthur Street Bridge. This is fully funded by prudential borrowing, originally a virement from Corporate Contingency. Approval is now sought that external grant of £999,000 awarded for the Arthur Street Bridge Project is built into the transport capital programme and that the borrowing previously set aside in contingency for this project be vired to the corporate contingency.
- 6.15 The Council has also been successful in securing funding from the Emergency Active Travel Fund from the Department of Transport. To-date, Wolverhampton has secured £347,378 (£303,282 capital and £44,096 revenue) from tranches 1 and 1b. Approval is sought in this report to establish capital budgets of £110,000 for the Ring Road St Peters Crossing and £193,282 for the Active Travel Scheme, funded by external grant, and delegate authority to the Cabinet Member for City Environment, in consultation with Director of City Environment to approve any virements required to individual projects in order that projects can be implemented in an agile and timely manner. Approval is also required to establish supplementary revenue budgets totalling £44,096 funded by external grant to support the Active Travel Scheme. The Council will be submitting further expressions of interest for additional funding, if successful, delegated authority is also sought for 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 establish revenue and capital budgets funded by this grant.

7.0 2020-2021 Budget Update

- 7.1 Since the 2020-2021 budget was set in March 2020, Covid-19 was declared a national pandemic. At the time of reporting to Council on 4 March, the full impact of Covid-19 was not anticipated and the impact on both the finances and operating environment could not have been foreseen. The financial implications of the pandemic have significantly distorted the 2020-2021 budget.
- 7.2 As detailed in section 6, the Government has announced grant funding to help local authorities address the pressures they are facing in response to Covid-19. Wolverhampton's total allocation is £19.4 million.
- 7.3 Under the Council's emergency decision-making powers, a range of short term initiatives were implemented, to response including the distribution of food parcels to the city's most vulnerable residents, temporary accommodation for rough sleepers, additional financial

support for adult social care providers and the procurement of additional personal protective equipment for key staff and partners.

- 7.4 All of these short-term new initiatives required additional investment and have been funded to-date by the Covid-19 Emergency Funding received from Central Government.
- 7.5 In addition to the short-term initiatives, a number of services were suspended in response to Government requirements. Income streams have been adversely affected from the loss of fees and charges for services, such as car parking, leisure and cultural services.
- 7.6 At the time of setting the 2020-2021 budget, new service budget reduction and income generation targets totalling in excess of £10 million were approved. A number of these planned targets are now at risk because resources that would originally have been focussed on transformation programmes have been redirected to enable the Council to response to the crisis.
- 7.7 The Council has played a proactive, leading role in responding to Covid-19. Some of the new initiatives implemented to support the City's residents may continue to require financial support. As the situation evolves and restrictions continue to ease, some of the new initiatives will cease entirely, ease or will transition into different services which will require financial support.
- 7.8 Our current projections demonstrate that the grant will be sufficient to meet the immediate revenue cost pressures and loss of income but will not address the full year impact, including the delivery of budget reduction targets.
- 7.9 The current projections of the cost implications of Covid-19 are detailed in Table 1 below:

Table 1: Projected Financial Implications of Covid-19

Category	2020-2021 £000
Expenditure	11,855
Loss of Income	8,706
Budget Reduction and Income Generation targets at risk	1,907
Total potential impact	22,468
Government Grant	19,429
Potential Cost Pressure	3,039

- 7.10 In addition to the costs above, Covid-19 has had an impact on development of capital projects. Given the unprecedented circumstances, there has understandably been some delay on capital projects due to the pandemic. The council continues to assess the potential implications of Covid-19 on the wider capital programme in terms of delivery timescales and increase in costs. Any additional costs on the capital programme will result in an increase in the Treasury Management revenue budget. The joint meeting of

Cabinet and Cabinet (Resources) Panel on 23 June 2020, received a report on the Covid-19 impact on the Capital Programme. In order to be prudent, additional capital budget has been built into the Capital Programme to cover potential risks associated with the Covid-19 pandemic. The potential annual revenue impact could be up to £430,000 per year, the impact of this will not be seen until after 2020-2021.

- 7.11 It is important to note, that the financial implications detailed above are subject to change and do not include the cost of recovery work, or any provision for a second wave of the pandemic.
- 7.12 In addition, there are longer term implications for the Council's operating model, as the scale of the change post-Covid-19 will place new expectations and demands on service delivery in 2020-2021 and future years.
- 7.13 Furthermore, the impact of Covid-19 and the Council's plans for reset and recovery of services over the immediate and medium term will require financial investment. In recognition of the initial investment that will be required to support the recovery work, Cabinet on 8 July, approved a specific Recovery Reserve of £3 million. The Council will need to re-prioritise resources for any investment required to support the recovery strategy beyond this initial £3 million.
- 7.14 The Revenue Budget Monitoring 2020-2021 report on this same agenda, shows that the Council is currently forecasting a break even out-turn position, excluding the impact of Covid-19. The Revenue Budget Monitoring 2020-2021 report provides details of the projected revenue outturn position compared to the Council's approved budget, it also details the assumptions about the use of corporate contingency budgets set aside to support financial pressures identified during the 2020-2021 budget setting process. This impact of the pandemic has significantly distorted this 2020-2021 budget and current assumptions identified above show a potential cost pressure after the use of grant of £3.0 million for 2020-2021.
- 7.15 The Government have allocated grant totalling £19.4 million today to support the unprecedented financial situation that the council finds itself in due to Covid-19, however, further funding is required in order to meet the full costs of the pandemic. It is anticipated that the Government will provide sufficient grant funding to cover these pressures, however if this is not the case the Council would need to identify in year efficiencies, which could impact on service delivery. This will be closely monitored, with updates provided in future reports.

8.0 Budget Strategy 2021-2022 to 2023-2024

- 8.1 Since the 2020-2021 budget was set in March 2020, work has been ongoing to identify budget reduction and income generation opportunities to address the projected budget challenge of £15.5 million in 2021-2022, rising to around £20 million over the medium-term period to 2023-2024.

- 8.2 2019-2020 was the final year of the Comprehensive Spending Review 2015. As reported to Cabinet in October 2019, the Comprehensive Spending Review 2020 was delayed due to the extension of ongoing negotiations surrounding Brexit. 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 would take place in 2020 for funding post 2020-2021. It was envisaged that the Fair Funding Review and Business Rates Retention reforms would also be addressed as part of this multi-year Spending Review.
- 8.3 On 24 March, the Government announced that the Comprehensive Spending Review, would be delayed from July to enable the government to remain focused on responding to the public health and economic emergency. Local authorities will therefore receive a one-year settlement for 2021-2022.
- 8.4 Due to the response required to the Covid-19 crisis it has not been possible to progress work on the budget for 2021-2022 at the pace which would normally be expected. However, some work has continued, and the following paragraphs provide detail of updated assumptions in a number of areas. Work will continue over the next couple of months to review all assumptions in the Medium Term Financial Strategy and a full update will be presented to councillors in the Autumn.
- 8.5 At the time of budget setting it was recognised that there was a high level of uncertainty facing local authorities over the forthcoming Comprehensive Spending Review. A number of assumptions were therefore made as to the level of resources the Council could expect to receive in 2021-2022 and beyond. In light of the current situation, these assumptions have been further reviewed and updated projections are detailed in the paragraphs below.
- 8.6 The various opportunities, as detailed in the paragraphs below, may in some instances require further analysis and consideration, which will take place between August and October 2020, prior to being incorporated into the Draft Budget and Medium Term Financial Strategy 2021-2022 report which will be presented to Cabinet for approval in October 2020.

Corporate Resources

- 8.7 A number of assumptions have been made with regards to the 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 the future funding streams for local authorities. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and increase the budget deficit forecast over the medium term.

Social Care Grants

- 8.8 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 to the Council. The Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024 presented to Full Council in March 2020, assumed that a number of one-off Social Care Grants received in 2019-2020 would cease after 2020-2021.
- 8.9 As detailed above, the Comprehensive Spending Review has been delayed due to the Covid-19 pandemic. Therefore, local authorities are likely to receive a one-year settlement for 2021-2022 only. Taking this into account, in conjunction with historical trends that the Council has seen over the last few years, it is anticipated that the Government will announce that local authorities receive the social care grants in 2021-2022. The resources available to the Council have therefore been revised to incorporate forecast Adult Social Care winter pressures, adult social care one-off funding (spring 2017), and children and adult social care grant funding, totalling £5.7 million for 2021-2022 only.

Collection Fund Deficit

- 8.10 In addition to the projected financial implications detailed section 7 above, current projections indicate that there will be a significant reduction in the amount of funds that are collected in 2020-2021 from Council Tax and Business Rates.
- 8.11 Due to collection funding accounting treatment, any Collection Fund losses from 2020-2021 do not impact upon the budget until 2021-2022.
- 8.12 Current working assumptions indicate that there could be a 15% reduction in the collection rate and appeals for remaining business rates, and a 6% reduction in the collection rate on Council Tax. In addition, we are forecasting losses to the increase in the number of Council Tax Relief cases. In total, the current projected losses are expected to be in the region of £15.4 million.
- 8.13 As detailed in paragraph 6.9, Government have announced that the repayment of collection fund deficits arising in 2020-2021 can be spread over a three year period (2021-2022 to 2023-2024). Based on current projections this could result in an annual cost of £5.1 million.

Changes to Growth and Inflation

- 8.14 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy remain under constant review and update.

8.15 The Budget and Medium Term Financial Strategy approved by Full Council on 4 March 2020, recognised that during the 2020-2021 budget setting process, a number of emerging pressures had been identified and continued to be kept under review. In order to be prudent and recognise these budget pressures, a Corporate Contingency budget for budget growth in 2020-2021 was established, pending completion of the relevant reviews. Updated assumptions on pay related budgets and growth for Corporate Landlord have now identified that some of this growth may be reduced for 2021-2022.

8.16 Options are currently being explored on identifying efficiencies from potential technical financial transactions. This work is in the early stages, but high-level assumptions indicate that one-off efficiencies in the region £5 million could be generated in 2021-2022 reducing to £2 million over the medium term. Work will continue on these proposals over the next few months, with further reports in Cabinet in due course.

9.0 Update on Emerging Factors for 2021-2022 and the Medium Term.

9.1 The assumptions used in the preparation of the budget and Medium Term Financial Strategy remain under constant review and update.

9.2 Over the next few months, detailed reviews will be undertaken on the current budget reduction and income generation proposals included in the MTFs to ensure they are still deliverable over the medium term in light of the Covid-19 pandemic.

9.3 In addition, assumptions around inflationary and growth and the impact of the pandemic on the capital programme and treasury management budgets will be reviewed.

9.4 Furthermore, detailed work will be undertaken to project the financial implications on services across the Council as a result of responding the Covid-19 pandemic. It is anticipated that income streams could still be adversely affected in 2021-2022 as the Council continues to respond to Government requirements, and demand continues to differ from the norm. Costs for services are also likely to change as new expectations and demands are placed on service delivery.

9.5 As detailed in section 5, the Council is developing its Recovery Strategy which will consider both the short term and operational transition of services from lockdown, along with the longer-term strategic approach to shape future service delivery. Over the next few months, detail service design will be undertaken, ensuring the Recovery Strategy is aligned to the Financial Strategy.

9.6 If further funding is not made available from Government, the Council will need to re-prioritised resources in order to fund the Recovery Strategy.

9.7 The overall impact of the revisions to the draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024, arising as result of the items detailed in the paragraphs above, have been reflected in Table 2 below

Table 2 – Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024

	2021-2022 £000	2022-2023 £000	2023-2024 £000
Projected Budget Challenge as approved by Council, March 2020	15,531	20,245	19,049
Changes to Resources			
- Social Care Grants	(5,674)	5,674	-
- Collection Fund deficit flexibility (spread over three years)	5,133	-	-
Changes to Growth and Inflation			
- Changes to Corporate Contingency budgets	(1,300)	(250)	(250)
- Potential technical financial transactions	(5,000)	3,000	-
- Cost Pressures of Covid-19	TBC	TBC	TBC
Annual Change	(6,841)	8,424	(250)
Cumulative Change	-		
Projected deficit after cumulative impact of targets	8,690	21,828	20,382
Projected change in deficit	-	13,138	(1,446)

10.0 Next Steps and Budget Risk Management

- 10.1 Work will continue to take place over the next few months to develop budget reduction and income generation opportunities for the medium term, in order to ensure that a balanced budget can be set in each individual year.
- 10.2 Furthermore, Directors are currently undertaking in-depth reviews on the 2019-2020 outturn position to identify further opportunities to reduce costs and / or increase income estimates for 2020-2021 and future years.
- 10.3 The Medium Term Financial Strategy detailed above currently covers a three year period, however work is going to extent this period to five years, progress will be reported in October budget report.
- 10.4 A summary of the 2020-2021 budget setting process timetable is detailed below in Table 3.

Table 3 – Budget Timetable

Milestone	Deadline
Report to Cabinet	29 July 2020
Intensive work to develop proposals	August – October 2020
Draft Budget and Medium- Term Financial Strategy (MTFS) 2021-2022 to 2023-2024 report to Cabinet	7 October (provisional date)
Formal Budget Consultation	October 2020 – December 2020
Report to Cabinet following Local Government Financial Settlement	13 January 2021 (provisional date)
Final Budget Report 2021-2022 to Cabinet	17 February 2021(provisional date)
Full Council Approval of Final Budget 2021-2022	March 2021

- 10.5 The overall level of risk associated with the Draft Budget and Medium-Term Financial Strategy (MTFS) 2021-2022 to 2023-2024 is assessed as Red. An additional risk has been incorporated into the Risk Register for Covid-19. The following table provides a summary of the risks associated with the MTFS, using the corporate risk management methodology.

Table 4 – General Fund Budget Risk Register

Risk	Description	Level of Risk
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, 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. The risk of successful appeals against business rates.	Amber
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
Covid-19	Risk that the financial implications of Covid 19 including the Council's recovery will exceed the grant allocations awarded by Government and place further financial pressures on the council financial position.	Red

11.0 Evaluation of alternative options

11.1 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 2021-2022. This may therefore potentially impact upon service provision.

12.0 Reasons for decisions

12.1 It is recommended that the Five Year Financial Strategy, is approved by Cabinet for further development between August and October 2020. Cabinet will be provided with an update on progress in the Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 report which will be presented to Cabinet in October 2020. In approving this strategy, the Council will be working towards identifying options to be able to set a balanced budget for 2021-2022.

13.0 Financial implications

13.1 The Financial Implications are detailed throughout this report.

[AS/20072020/R]

14.0 Legal implications

14.1 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.

14.2 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.

14.3 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.

14.4 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).

- 14.5 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.
- 14.6 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.
- 14.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2021-2022.

[TS/20072020/W]

15.0 Equalities implications

- 15.1 The method by which the MTFS for 2021-2022 is developed is governed by the Council Plan priorities described in paragraph 3.2 which itself was guided by consultation and equality analysis. The further development of the various budget proposals for Cabinet’s consideration in October will include an initial equalities screening for each proposal and, where necessary, a full equalities analysis which will provide for an initial understanding of the equality impact of the draft proposals. All of this will enable Councillors to pay, “due regard” to the equalities impact of their budget decisions at that point in the budget development process. The Council will then publish details of its income generating and budget reduction proposals as part of its public consultation around the 2021-2022 budget. No proposal will be approved until the details of the responses to public consultation have been analysed for their impact on equalities. The resulting and final report to Cabinet and Council will contain a supporting equality analysis that will offer information across the whole range of proposals and in doing so enable Councillors to discharge their duty under Section 149 of the Equality Act 2010.

16.0 Climate change and environmental implications

- 16.1 There are no relevant climate change and environmental implications arising from this report.

17.0 Human resources implications

- 17.1 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 1st April 2019 up to 31 March 2020. A further HR1 was scheduled to be issued on 1 April 2020 for the period 1 April 2020 – 31 March 2021, this has been postponed due to the COVID19 emergency. A HR1 will be issued on 1 August 2020 for the period 1 August 2020 – 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.
- 17.2 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.
- 17.3 As detailed in the report, budgetary reductions will be made through efficiencies with new and smarter ways of working, income generation and transformation initiatives.
- 17.4 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.
- 17.5 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.
- 17.6 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

18.0 Corporate landlord implications

- 18.1 As detailed in the body of the report, the corporate contingency held for potential budget pressures has been reviewed. This report includes a targeted reduction to this contingency over the medium term.

19.0 Health and Wellbeing Implications

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

20.0 Covid Implications

- 20.1 The Covid implications are discussed throughout the body of this report.
- 20.2 The Covid-19 pandemic has had a significant international, national and regional impact, and will continue to have, significant financial implications for the Council.

21.0 Schedule of background papers

- 21.1 [Draft Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024](#) - Cabinet on 16 October 2019
- 21.2 [2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024](#) Cabinet on 19 February 2020 and Full Council on 4 March 2020
- 21.3 [Revenue Budget Outturn 2019-2020](#) - Cabinet on 8 July 2020
- 21.4 [Reserves, Provisions and Balances 2019-2020](#) - Cabinet on 8 July 2020.
- 21.5 [Amendments to Council Budgets and Decisions related to Council actions as result of Covid-19, Special Urgency Decision](#) - 27 March 2020
- 21.6 [Amendments to Council Budgets and Decisions related to Council actions as result of Covid-19, Special Urgency Decision](#) - 5 May 2020
- 21.7 [Capital Budget Outturn 2019-2020 including Quarter One Capital Monitoring 2020-2021](#), report to Cabinet on 8 July 2020