



# Cabinet Meeting

4 February 2015

<b>Report title</b>	2015/16 Budget and Medium Term Financial Strategy 2015/16 – 2018/19	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Andrew Johnson Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All	
<b>Accountable director</b>	Keith Ireland, Managing Director	
<b>Originating service</b>	Delivery	
<b>Accountable employee(s)</b>	Mark Taylor	Director of Finance
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<b>Report to be/has been considered by</b>	Strategic Executive Board Confident Capable Council Scrutiny Panel	22 April 2015

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## Recommendation(s) for action or decision:

The Cabinet is recommended to:

1. Approve the changes to the Budget and Medium Term Financial Strategy 2015/16 to 2018/19, previously approved by Cabinet on 22 October 2014.
2. Approve the key budget parameters, as set out in Appendix B.
3. Delegate authority to the Director of Finance (Section 151 Officer) to agree the composite rate for employer's contributions with West Midlands Pension Fund.

## Recommendations for noting:

The Cabinet is asked to note:

1. That the Council is now faced with finding further savings totalling £40.6 million over the next four years, with an immediate focus on identifying as much of the projected £3.5 million deficit for 2015/16.
2. That the Council continues to undertake detailed analysis in order to identify and predict the likely number of Looked After Children in future years. Ensuring the safeguarding of Looked After Children is of utmost importance to the Council. The work that is being undertaken will help inform the level of savings that may be achieved in this area in 2015/16 and beyond; a significant reduction and reprofiling of these savings is anticipated. A further update will be reported to Cabinet as part of the final budget report on 25 February 2015.
3. That in order to balance the 2015/16 budget it is anticipated that £3.5 million of general balances will be required, unless further savings are identified. If the Council were to use £3.5 million of general reserves to balance the budget in 2015/16, this would breach the Council's policy of maintaining a minimum of £10 million in general reserves.
4. That further detailed technical work will continue prior to the next update to Cabinet on 25 February 2015, with the aim of reducing the call on general reserves as much as possible to ensure that the Council's policy of maintaining a minimum of £10 million in general reserves is not breached.
5. That work will start immediately to identify additional savings to address the projected £15.6 million budget deficit for 2016/17. Savings required may be in excess of the projected budget deficit in 2016/17 in order to replenish general reserves to £10 million. An update on progress will be reported to Cabinet in June 2015.
6. That it is particularly challenging to project key assumptions over the medium term period, however they have been adjusted based upon the information available at present and professional judgement. Budget assumptions therefore remain subject to significant change, and could result in alterations to the financial position facing the Council.
7. A new Adult Social Care Savings Board is to be established, and will be chaired by the Director of Finance, to monitor performance and delivery of previously approved Adults savings.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Cabinet with an update on the 2015/16 budget and the Medium Term Financial Strategy for the period to 2018/19. This is the third report of this nature during 2014/15.

## **2.0 Summary**

- 2.1 The Budget and Medium Term Financial Strategy for the period 2014/15 to 2018/19 was approved by Council on 5 March 2014, with a budget deficit of £11.8 million projected for 2014/15 rising to £59.2 million by 2018/19.

- 2.2 A budget strategy to address the projected budget deficit was approved by Council at that meeting, and throughout the first seven months of 2014/15 significant work has taken place to identify new savings proposals to achieve the strategy for 2015/16.

- 2.3 Extensive budget preparation work has been on-going in recent months for the 2015/16 budget. That detailed work in conjunction with adjustments arising as a result of changes in assumptions, as detailed in sections 4 and 5 below, have been incorporated into this update to the Budget and Medium Term Financial Strategy.

- 2.4 The Council is now faced with finding further savings totalling £40.6 million over the next four years, with an immediate focus on identifying as much of the projected £3.5 million deficit for 2015/16. The budget position reported to Cabinet in October identified that savings totalling £36.7 million were required over the medium term period to 2018/19; the budget adjustments have increased the budget deficit by £3.9 million over the medium term, largely due to additional Treasury Management budget of £3 million required as a result of increasing interest costs as well as pressures arising from a reduction in projected Birmingham Airport dividends and compliance with Deprivation of Liberty Safeguarding.

- 2.5 If the Council were to use £3.5 million of general reserves to balance the budget in 2015/16, this would breach the Council's policy of maintaining a minimum of £10 million in general reserves.

- 2.6 In order to address this issue further detailed technical work will continue prior to the next update to Cabinet on 25 February 2015, with the aim of identifying additional savings to reduce the projected budget deficit in 2015/16 and therefore reduce the call on general reserves.

## **3.0 Background**

### **3.1 2014/15 Budget and Medium Term Financial Strategy**

- 3.1.1 The Budget and Medium Term Financial Strategy for the period 2014/15 to 2018/19 was presented to Council for approval on 5 March 2014. After taking account of savings proposals identified during the 2014/15 budget setting process, equating to £66.7 million

over the 5 year period to 2018/19, a budget deficit of £11.8 million was projected for 2014/15 rising to £59.2 million by 2018/19.

- 3.1.2 Given the extremely challenging financial position the Council finds itself in, following successive cuts in government grant, a strategy to address the projected budget deficit over the medium term was approved by Council in March 2014.
- 3.1.3 The strategy focused on identifying £25 million of savings for 2015/16, with the aim to accelerate as many of those savings as possible into 2014/15, to reduce the call on general balances. At this point, an additional £35 million of savings were required as part of the medium term strategy to address the budget deficit.
- 3.1.4 During the first seven months of 2014/15 significant work has taken place to identify new savings proposals to achieve the approved budget strategy for 2015/16. Cabinet received two reports during this period in June and October 2014. Savings proposals totalling £27 million were reported to, and approved for consultation by, Cabinet on 22 October 2014.

## **3.2 2014/15 Forecast Outturn**

- 3.2.1 On 11 November 2014, Cabinet (Resources) Panel received the quarter two revenue budget monitoring report for the current financial year. This report projected a net overspend of £3.3 million for the year. The projected overspend has arisen primarily as a result of the continued increase in the numbers of Looked After Children placements.
- 3.2.2 Although the Families R First programme continues to make progress and the numbers of Looked After Children has held steady since March 2014, Cabinet (Resources) Panel were informed that trends were being monitored and that the current savings target for Looked After Children may need to be revised.
- 3.2.3 In order to support the savings programme in rebuilding general reserves, Cabinet approved in October, that expenditure during the remainder of 2014/15 be restricted to that which is essential to enable the Council to undertake its planned level of services.

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

- 4.1 Due to the financial challenges facing the Council, it continues to be increasingly important to consider next year's budget as part of a Medium Term Financial Strategy. The Medium Term Financial Strategy addresses the four year period to 2018/19, due to the continued challenges in projecting financial resources available to the Council beyond this time frame. The major budget assumptions used in the preparation of the Medium Term Financial Strategy are set out in Appendix B. Specific assumptions are set out in more detail below.
- 4.2 It is particularly challenging to project key assumptions over the medium term period, however they have been adjusted based upon the information available at present and professional judgement. It is important to note that budget assumptions remain subject to

significant change, which could therefore result in alterations to the financial position facing the Council.

### 4.3 Pay Related Pressures

- 4.3.1 The projected increase arising from pay related pressures is detailed in Table 1 below. The table details the estimated impact of pay awards, increases in employer's national insurance and pension contributions and other known pay related pressures.

**Table 1 – Pay Related Pressures**

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Pay Award	1,995	2,673	2,700	3,376
Employers Pension	2,935	4,811	10,156	(784)
National Insurance	-	672	-	-
Annual Increments	1,949	1,248	750	750
	<b>6,879</b>	<b>9,404</b>	<b>13,606</b>	<b>3,342</b>

- 4.3.2 As in previous years, a composite rate for employer's contributions to the pension fund, incorporating future service and deficit recovery costs, will be agreed with West Midlands Pension Fund. It is recommended that authority be delegated to the Director of Finance (Section 151 Officer) to agree this rate with the Fund.

### 4.4 Budget Pressures and Developments

- 4.4.1 Table 2 below details budget growth that has been incorporated into the Medium Term Financial Strategy.

**Table 2 – Summary of Budget Pressures and Developments**

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Inflationary Pressures	2,486	2,616	3,119	2,923
Demographic & Demand Pressures	3,250	2,170	2,170	2,170
Developments	50	743	-	-
	<b>5,786</b>	<b>5,529</b>	<b>5,289</b>	<b>5,093</b>

### 4.5 Treasury Management

- 4.5.1 An additional £3 million has been incorporated into the Medium Term Financial Strategy for treasury management. This reflects increasing interest costs due to the Housing Revenue Account repayment of debt, resulting in the HRA benefitting from a greater benefit from internal borrowing.

## **4.6 Council Tax**

- 4.6.1 The Council Tax Base and NNDR (Business Rates) Net Rate Yield 2015/16 report was presented to Cabinet on 14 January 2015. Cabinet approved that the Council Tax Base for 2015/16 is to be set at 59,103.95 Band D equivalents with a 1.99% increase in Council Tax.
- 4.6.2 It is projected that income from council tax will rise in subsequent years, based upon the latest collection rates and tax base. Projections assume that Council Tax will continue to increase by 1.99% in future years, whilst the tax base is anticipated to rise by 0.5% each year.

## **4.7 Localised Business Rates**

- 4.7.1 As detailed in paragraph 4.6.1 above, the Council Tax Base and NNDR (Business Rates) Net Rate Yield 2015/16 report was presented to Cabinet on 14 January. It is currently forecast that £37.1 million of business rates will be retained by the Council in 2015/16. This forecast has been developed following input from the Revenues team, but remains preliminary at this stage.
- 4.7.2 The underlying forecast for localised business rates for the period of the Medium Term Financial Strategy reflects nil growth in the tax base, a reduction from the previously assumed 0.2% growth.
- 4.7.3 At the time of setting the 2014/15 budget, Cabinet were informed that the underlying forecasts for localised business rates reflected a positive increase arising from the regeneration aspirations for the city over the medium term, as well as known developments such as Sainsbury's and Tesco. This was however set against an average decline in business rates in Wolverhampton of 0.26% per annum over the previous six years, after allowing for the inflation increase in the multiplier, this therefore continued to be an ambitious assumption.
- 4.7.4 Further to this, there are additional issues that the Council is faced with which has resulted in the reduction in forecast income from localised business rates. Overall the city has seen a decline in rateable values (RV) and this trend is forecast to continue. This trend is being driven by businesses appealing their RV, in addition to demolitions within the city required to facilitate regeneration. We are also finding that larger units are being split into a number of smaller units; detailed work is currently taking place to determine the impact of this on the overall RV and the amount the Council can retain. Further to this, the number of properties in the city that qualify for unoccupied relief has increased significantly year on year and this trend is forecast to continue.
- 4.7.5 The assumed increase in the tax base when setting the 2014/15 budget was 0.2% per annum, in light of the reduction that has been experienced during the year, for the reasons set out above, combined with the recent announcement by Tesco, it is no longer considered prudent to assume any growth in the tax base, therefore, a freeze in tax base is now being assumed annually.

4.7.6 It is important to note that the forecast for localised business rates remains optimistic as the tax base is continuing to decline annually. The Council continues to work hard to regenerate the City; the freeze reflected in this assumption does not therefore reflect the regeneration aspirations of the Council.

#### **4.8 Revenue Support Grant**

4.8.1 The announcement of the Provisional Local Government Finance Settlement on 18 December 2014 resulted in an increase of £677,000 to the anticipated Revenue Support Grant receivable for 2015/16. This was reported to Cabinet on 14 January 2015.

4.8.2 With the absence of further information from the Government regarding the Council's Revenue Support Grant funding for future years, and the particularly challenging environment in which we find ourselves, it is difficult to project government funding. These projections over the medium term therefore remain subject to potentially significant changes until the actual level of grant is notified by the Government in December each year.

4.8.3 We are however, actively seeking opportunities to discuss issues faced by the Council with the Government, and ways in which they may be able to provide support. Following discussions with Department for Communities and Local Government representatives during 2014, a capitalisation direction application to capitalise redundancy costs was submitted to the Government on 13 January 2015, to coincide with a meeting with Kris Hopkins MP, Parliamentary Under Secretary of State for Communities and Local Government. The Ministers acknowledged receipt of this application at the meeting and agreed to review the application.

4.8.4 Further to this, discussions were also raised in relation to the business rates consultation, which addresses business rates avoidance and legislation, as significant sums are being lost. At the Ministers request, he has been copied into the response to this consultation and has also received a letter from the Cabinet Member for Resources addressing the issues surrounding capital schemes where investment is funded through a Tax Increment Financing approach.

#### **4.9 Top Up Grant**

4.9.1 The top up grant is calculated as the sum of money required to bridge the gap between the underlying need of an authority as measured by formula grant and its combination of other grants receivable from central government.

4.9.2 The top up is fixed for a period of up to ten years but rises with in line with the RPI over that time. The projections for top-up grant have been adjusted to reflect the Provisional Local Government Finance Settlement for 2015/16, as reported to Cabinet on 14 January 2015, and anticipated rises in line with inflation for future years.

#### 4.10 New Homes Bonus

4.10.1 New Homes Bonus has been recalculated following input and updated information from the Planning team. This has resulted in a reduction in New Homes Bonus and Adjustment Grant of £491,000 over the four year period to 2018/19.

4.10.2 The table below details the adjustments to corporate resources required as a result of the Provisional Local Government Finance Settlement for 2015/16, announced on the 18 December 2014, as reported to Cabinet on 14 January 2015:

**Table 3 - 2015/16 Provisional Settlement Details**

	MTFS	Settlement	Difference	
	Assumption		Over/(Under)	
	£000	£000	£000	%
Top Up Grant	36,198	35,899	(299)	(0.8)
Revenue Support Grant	61,990	62,667	677	1.1
New Homes Bonus	3,202	3,203	1	0.0
	<b>101,390</b>	<b>101,769</b>	<b>379</b>	<b>0.4</b>

#### 4.11 Specific Grants

4.11.1 Specific grants for each year have been reviewed and adjustments have been built into the Medium Term Financial Strategy. Further detailed information will be presented to Cabinet in the final budget report on 25 February 2015.

#### 4.12 Fees and Charges

4.12.1 The 2015/16 budget position has been updated to take into account anticipated levels on income following adjustments to fees and charges approved by Cabinet on 9 December 2014.

#### 5.0 Savings Proposals

5.1 New savings proposals totalling £27.0 million were reported to Cabinet on 22 October 2014, as detailed in the table below.

**Table 4 – Savings proposals identified during the 2015/16 Budget Process**

	2014/15	2015/16	Later Years*	Total
	£000	£000	£000	£000
Savings proposals reported October 2014	1,885	25,169	(64)	26,990

\* figures reported in brackets represent a reduction to previously approved savings proposals in later years due to these being accelerated and implemented in earlier years.

- 5.2 These savings proposals have been subject to budget consultation, which was completed on 15 January 2015. The Budget 2015/16 – outcome of consultation report will be presented to Cabinet at this meeting. Further detailed analysis and any consequential revisions to savings proposals in response to budget consultation feedback will be incorporated into the final budget report to be presented to Cabinet on 25 February 2015.
- 5.3 As detailed in paragraph 3.2, the latest revenue budget monitoring report presented to Cabinet (Resources) Panel on 11 November 2014 projected a £3.3 million overspend for the current financial year, primarily as a result of the continued increase in the numbers of Looked After Children.
- 5.4 Families R First continues to make progress. The number of Looked After Children has begun to reduce since December, although this is slow. Given the anticipated overspend in 2014/15, the Council continues to undertake further detailed analysis in order to identify and predict the likely number of Looked After Children in future years. Ensuring the safeguarding of Looked After Children is of utmost importance to the Council. The work that is being undertaken will help inform the level of savings that may be achieved in this area in 2015/16 and beyond; a significant reduction and reprofiling of these savings is anticipated. A further update will be reported to Cabinet as part of the final budget report on 25 February 2015.
- 5.5 Further to this, savings proposals within the Adults area are being closely monitored as they are also very challenging. A new Adult Social Care Savings Board is to be established, and will be chaired by the Director of Finance, to monitor performance and delivery of previously approved Adults savings.
- 5.6 It is proposed to reprofile previously approved saving proposals for the Civic Halls and Lighthouse Media Centre. The revision to these savings proposals will result in savings being made in later years, rather than in 2015/16 as originally anticipated. The revision to savings proposals has been reflected in section 6 below.

## **6.0 Medium Term Financial Strategy**

- 6.1 The table below details projections for the period to 2018/19; incorporating extensive budget preparation work that has been on-going in recent months for the 2015/16 budget, in addition to those adjustments arising as a result of changes in assumptions, as detailed in sections 4 and 5 above.
- 6.2 The Council is now faced with finding further savings totalling £40.6 million over the next four years, with an immediate focus on identifying £3.5 million for 2015/16 in order to balance the budget. The budget position reported to Cabinet in October identified that savings totalling £36.7 million were required over the medium term period to 2018/19; the budget adjustments therefore have resulted in an additional pressure of £3.9 million over the medium term.

- 6.3 As stated in the paragraph above, in order to balance the 2015/16 budget it is anticipated that £3.5 million of general balances will be required. Further detailed technical work will continue prior to the next update to Cabinet on 25 February 2015, with the aim of reducing the call on general reserves as much as possible. Further to this, work must start immediately to identify additional savings to address the projected £15.6 million budget deficit for 2016/17. It is proposed that an update on progress will be reported to Cabinet in June 2015.
- 6.4 It is important to note that the updated projected budget deficit assumes the achievement of prior savings proposals amounting to £46 million over the four year period to 2018/19, in addition to the implementation of all savings proposals that have been subject to budget consultation, as detailed in section 5.
- 6.5 Appendix A analyses the changes that have taken place since October 2014, whilst the Council's proposed budget for 2015/16 and the medium term forecast is shown at Table 5 below. It is important to note that the budget and medium term forecast is subject to further detailed work in particular relating to Looked After Children and the identification of additional savings including revisiting the approach to the provision for the redemption of debt (MRP), and will be reported to Cabinet on 25 February 2015.

**Table 5 - Medium Term Financial Strategy 2015/16 to 2018/19**

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Previous Years Net Budget Brought Forward</b>	<b>247,550</b>	<b>225,834</b>	<b>230,150</b>	<b>242,796</b>
<b>Increasing Cost Pressures</b>				
- Pay Related Pressures	6,879	9,404	13,606	3,342
- Treasury Management	6,681	3,589	1,603	1,792
- Budget Growth	5,786	5,529	5,289	5,093
- Full year effect of prior years savings	(17,917)	(9,757)	(9,128)	(9,211)
- Net impact of change in specific grants	1,574	267	261	150
- Savings Proposals - October 2014	(24,719)	(4,716)	1,015	765
	<b>(21,716)</b>	<b>4,316</b>	<b>12,646</b>	<b>1,931</b>
<b>Net Budget (Before Use of Resources)</b>	<b>225,834</b>	<b>230,150</b>	<b>242,796</b>	<b>244,727</b>
<b>Projected Corporate Resources</b>				
Council Tax	(80,951)	(83,081)	(85,158)	(87,287)
Revenue Support Grant	(62,667)	(51,960)	(41,742)	(31,216)
Enterprise Zone Business Rates	(989)	(1,532)	(2,394)	(2,800)
Collection Fund (Surplus)/Deficit	(1,041)	720	-	-
Top Up Grant	(35,899)	(36,739)	(37,599)	(38,479)
Localised Business Rates	(37,119)	(37,973)	(38,846)	(39,740)
New Homes Bonus	(3,202)	(3,957)	(4,267)	(4,254)
New Homes Bonus Adjustment Grant	(496)	(72)	(439)	(331)
	<b>(222,364)</b>	<b>(214,594)</b>	<b>(210,445)</b>	<b>(204,107)</b>
<b>Projected Annual Change in Budget Deficit/(Surplus)</b>	<b>3,470</b>	<b>12,087</b>	<b>16,795</b>	<b>8,270</b>
<b>Projected Cumulative Budget Deficit</b>	<b>3,470</b>	<b>15,556</b>	<b>32,351</b>	<b>40,621</b>

## 7.0 General Fund Reserves / Specific Reserves

7.1 The following table sets out the projected level of general balances at 31 March 2015:

**Table 6 – Projected General Balances at 31 March 2015**

	£000
<b>Balance as at 1 April 2014</b>	<b>(27,000)</b>
Budgeted Use of General Balances	9,942
In year Minimum Revenue Provision saving transferred into General Balances	(4,400)
Quarter Two Projected Overspend	3,272
Transfer to the Efficiency Reserve (to fund redundancy costs)	7,500
<b>Projected Balance as at 31 March 2015</b>	<b>(10,686)</b>

7.2 As can be seen from the table above, it is projected that redundancy costs in the region of £7.5 million will be incurred during 2014/15. It is worth noting that the redundancy costs for 2014/15 are an estimate, and are subject to change dependent upon the number and nature of applications.

7.3 As reported to Cabinet on 25 February 2014, the Council continues to make progress with the voluntary redundancy (VR) exercise having sought volunteers for redundancy/early retirement during late 2013 and it is still anticipated that reductions of up to 2,000 full time equivalent staff will be required over the medium term period to 2018/19. The Council continues to work towards this, with 715 people having had their application for VR accepted since May 2013.

7.4 In addition to this, the table below sets out the general balance projections over the medium term and the additional savings now required, to maintain the minimum level of £10 million required within the Reserves Policy.

**Table 7 – Projected uncommitted General Fund Reserves**

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Balance brought forward</b>	<b>(27,000)</b>	<b>(10,686)</b>	<b>(7,216)</b>	<b>8,340</b>	<b>40,691</b>
Revised Projected budget deficit	9,942	3,470	15,556	32,351	40,621
Other Adjustments*	6,372	-	-	-	-
<b>Balance carried forward</b>	<b>(10,686)</b>	<b>(7,216)</b>	<b>8,340</b>	<b>40,691</b>	<b>81,312</b>
Shortfall against £10 million minimum	-	2,784	18,340	50,691	91,312

\*Other Adjustments – as per table 7 above

- 7.5 As can be seen from the table above, in order to balance the 2015/16 budget, it is projected that £3.5 million would be required from general balances. Furthermore, this would reduce general balances to less than £10 million in 2015/16, resulting in a breach of the Council's policy to maintain a minimum of £10 million in general reserves.
- 7.6 In order to address this issue, further detailed technical work will continue prior to the next update to Cabinet on 25 February 2015, with the aim of identifying additional savings to reduce the projected budget deficit in 2015/16 and therefore reduce the call on general reserves.
- 8.0 Budget Risk Management**
- 8.1 The overall level of risk associated with the Budget and Medium Term Financial Strategy for 2015/16 to 2018/19 continues to be assessed as Red. The six main areas of risk are summarised in the table at Appendix C.
- 9.0 Budget Consultation and Scrutiny**
- 9.1 The Council's budget consultation took place from 27 October 2014 to 15 January 2015, in order to inform the 2015/16 budget and the Medium Term Financial Strategy. The Budget 2015/16 – outcome of consultation report to be presented to Cabinet at this meeting discusses the findings. The final outcome of budget consultation will be taken into account in the Cabinet's final budget recommendations to Council in March 2015.

## **10.0 Financial implications**

- 10.1 The financial implications are discussed within the body of the report.  
[MH/27012015/X]

## **11.0 Legal implications**

- 11.1 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 savings proposals.
- 11.2 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.
- 11.3 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.
- 11.4 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).
- 11.5 In addition, section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '...make a report ... if it appears to him 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.
- 11.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to him 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.

- 11.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2015/16.  
[JB/27012015/J]

## **12.0 Equalities implications**

- 12.1 Under the Equality Act 2010, the council has a statutory duty to pay due regard to the impact of how it carries out its business on different groups of people. This is designed to help the council identify the particular needs of different groups and reduce the likelihood of discrimination, the nine equality strands covered in the legislation are:

- Age;
- Disability;
- Gender reassignment;
- Marriage and Civil Partnership (this strand only applies to employment and not to service delivery);
- Pregnancy and Maternity;
- Race;
- Religion or Belief;
- Sex, and
- Sexual Orientation.

The strands include everyone

- 12.2 In relation to determining the overall revenue budget for the Council there is always a difficult balance to be struck in deciding the levels at which to invest, reduce expenditure and raise income set against the often competing needs of different groups within the Wolverhampton community.
- 12.3 In order to address these complex issues the Council operates an open and consultative approach to budget and council tax determination. Year-on-year and medium term spending forecasts are provided to every household and business ratepayer within the city as part of the documentation which accompanies the council tax demand.
- 12.4 Budget consultation meetings have been held with the education community, the business community, the voluntary sector, communities of interest and trade unions. The Council's budget consultation approach has also included an online survey in order to gain feedback on budget and service priorities.
- 12.5 In determining the budget for 2015/16 considerable focus has been placed on the development of savings proposals. Proposals were considered against the standard corporate process of initial equality screening or via a surgery approach. Where necessary a full equality analysis will be conducted.

- 12.6 The Council is facing a particularly challenging short and medium term financial environment in which savings must be generated and a tight control on spending maintained. This means that a greater focus than ever is necessary to ensure that core equalities commitments are met.
- 12.7 In summary the council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives. A cumulative equalities analysis will be conducted on the overall budget proposals, including the overall impact of job losses. This is will be made available on the Council's website.
- 12.8 Councillors should also be aware that under the Equality Act 2010, they must comply with the Public Sector Equality Duty (PSED) when making budget decisions. What this means in practice is that Councillors must consciously think about the three aims of the public sector equality duty as part of the decision making process, the three aims are to have due regard to the need to:
- Eliminate discrimination, harassment and victimisation;
  - Advance equality of opportunity by removing or minimising disadvantages, meet differing needs and encouraging participation, and
  - Foster good relations between people from different groups.
- 12.9 The Act does not require the council to treat everyone in the same way; sometimes different treatment is required, for example, be making reasonable adjustments to meet the needs of disabled people.
- 12.10 Consideration of equality issues must influence the decisions reached by public bodies including:
- How they act as employers;
  - How they develop, evaluate and review policy;
  - How they design, deliver and evaluate services, and
  - How they commission and procure from others.
- 12.11 The Brown Principles, established as a result of a legal case concerning Post Offices closures in 2008, provide an important checklist that should be considered when making decisions:
- Decision makers must be made aware of their duty to have due regard to the identified goals;
  - Due regard must be fulfilled before and at the time that a particular decision is being considered, not afterwards;
  - The duty must be exercised in substance, with rigour and with an open mind. It is not a question of ticking boxes;
  - The duty is cannot be delegated; it must be fulfilled by the organisation in question rather than through the use of an external body to do it to the organisation;
  - The duty is a continuing one, and

- It is good practice to keep an adequate record showing that it has considered the identified needs.

### **13.0 Environmental implications**

- 13.1 Environmental implications will be addressed on a case by case basis as part of individual savings proposals.

### **14.0 Human resources implications**

- 14.1 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 the workforce by up to 1,000 jobs across the Council in the period up to December 2014. In this period around 715 VR applications were accepted. A further HR1 has been issued covering the period to 31 March 2016 identifying the intention to reduce the workforce by a further 1000 through both voluntary redundancy and savings proposals which will result in compulsory redundancies.
- 14.2 Reductions in employee numbers 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. Given the volume and range of savings being proposed, there will be reductions in services and employee numbers which will require fair and due process to be followed regarding consultation, selection and implementation of any compulsory redundancies. The accelerated timetable for achieving savings in the light of the financial settlement is likely to require the Council as an employer to utilise the statutory 45 day and 30 day consultation periods for some service reductions, rather than the best practice position of allowing, where possible, 90 days.
- 14.3 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. Proposals to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations.
- 14.4 There is on-going consultation with the trade unions on the impact Council's budgetary position and the proposals being made to meet the challenges posed by it.

### **15.0 Schedule of background papers**

- 15.1 Budget 2015/16 – outcome of consultation, report to Cabinet, 4 February 2015.

Budget and Medium Term Financial Strategy 2015/16 – 2018/19 - Provisional Local Government Finance Settlement Update, report to Cabinet, 14 January 2015.

Council Tax Base and NNDR (Business Rates) Net Rate Yield 2015/16, report to Cabinet, 14 January 2015.

Revenue Budget Monitoring 2014/15 – Quarter Two 2015/16, report to Cabinet (Resources) Panel, 11 November 2014.

Budget and Medium Term Financial Strategy 2015/16 – 2018/19, report to Cabinet, 22 October 2014.

Managing the Budget Cuts – The Next Phase, report to Cabinet, 25 June 2014.

5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19, report to Council, 5 March 2014.

APPENDIX A

Medium Term Financial Strategy: Analysis of Changes since October 2014

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
<b>Projected Budget Challenge - October 2014</b>	<b>3,096</b>	<b>12,429</b>	<b>27,882</b>	<b>36,749</b>
<b>Changes to growth projections:</b>				
<b>Pressures</b>				
Black Country Transport Director	-	27	-	-
Deprivation of Liberty Safeguards	230	-	-	-
Birmingham Airport Dividends	239	235	6	10
Treasury adjustments	-	500	1,000	1,500
Internal Insurance Fund	-	200	200	-
	469	962	1,206	1,510
<b>Inflationary</b>				
Corporate Inflationary Contingency	(613)	-	-	-
Internal Insurance Fund	200			
Property - reduction in budgeted income arising as a result of economic impact on market prices	210	-	-	-
Street Lighting Energy Contract Inflationary increase	140	-	-	-
External Domiciliary Care Contract inflation	63	-	-	-
	-	-	-	-
<b>Changes to savings projections:</b>				
Reprofiling of Civic Halls saving	385	-	(150)	(235)
Reprofiling of Lighthouse Media Centre saving	30	(10)	(10)	(10)
Revision/reprofile of Looked After Children Savings				
New savings proposals including the provision for the redemption of debt (MRP)				
	Subject to further detailed work. An update will be reported to Cabinet on 25 February 2015.			
	415	(10)	(160)	(245)
<b>Changes to Corporate Resources projections</b>				
Adjustment to Corporate Grants	22	645	684	(867)
Adjustment to Council Tax	(1,510)	(167)	(67)	(67)
Adjustment to NNDR	1,277	371	392	412
Adjustment to Collection Fund (Surplus)/Deficit	(441)	1,161	(720)	-
Adjustment to Enterprise Zone Business Rates	142	(209)	7	(1,340)
	(510)	1,801	296	(1,862)
<b>Total Changes since October 2014</b>	<b>374</b>	<b>2,753</b>	<b>1,342</b>	<b>(597)</b>
Add: Cumulative Budget Adjustments	-	374	3,127	4,469
<b>Projected Budget Challenge - January 2015</b>	<b>3,470</b>	<b>15,556</b>	<b>32,351</b>	<b>40,621</b>

**Budget Preparation Parameters**

The following key parameters have been reflected in the budget and medium term projections.

	<b>2015/16 Forecast Budget</b>	<b>2016/17 Forecast Budget</b>	<b>2017/18 Forecast Budget</b>	<b>2018/19 Forecast Budget</b>
Council Tax Annual Increase (Council element)	1.99%	1.99%	1.99%	1.99%
Growth in Council Tax Base	0.5%	0.5%	0.5%	0.5%
Pay Awards	1.5%	2.0%	2.0%	2.5%
Price Inflation (excl. Gas, Electricity and NNDR)	0.0%	0.0%	0.0%	0.0%
Price Inflation (Gas)	5.1%	5.1%	5.1%	5.1%
Price Inflation (Electricity)	6.0%	6.0%	6.0%	6.0%
Price Inflation (NNDR)	2.3%	2.3%	2.3%	2.3%
Borrowing Interest Rate (PWLB 25 year rate)	4.8%	4.8%	4.9%	5.0%
Return on Investments	0.3%	0.3%	0.3%	0.3%
NNDR Income Annual Increase	2.3%	2.3%	2.3%	2.3%
Growth in NNDR Tax Base	0.0%	0.0%	0.0%	0.0%
Increase/(Decrease) in Top-Up Grant	1.9%	2.3%	2.3%	2.3%
Increase/(Decrease) in Revenue Support Grant	(27.9)%	(17.1)%	(19.7)%	(25.2)%

General Fund Budget Risks 2015/16 – 2018/19

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of the impact of non-pay inflation and pay awards, staff vacancy factors, VAT rules, loss of ICTS facilities, treasury management activity and the impact of Equal Pay and budget management failure.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering savings and downsizing the workforce.	Red
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, claw back, reduction to government grant or increased levels of bad debts.	Red
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	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 as a result of changes to Government policy including changes in VAT and personal taxation rules and, in particular, from the Care Bill	Red

Details of the risk control measures that are in place in order to manage and mitigate the risks as far as possible have been published on the Council's Website and can be found via the following link <http://www.wolverhampton.gov.uk/budgetsavings>.

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