

CITY OF WOLVERHAMPTON COUNCIL	Cabinet Meeting 20 February 2018
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Report title	2018-2019 Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	(All Wards)	
Accountable director	Keith Ireland, Managing Director	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye Tel Email	Director of Finance 01902 550478 claire.nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council	6 February 2018 7 March 2018

Recommendations for decision:

That the Cabinet recommends that Council approves:

1. The net budget requirement for 2018-2019 of £229.1 million for General Fund services (paragraph 17.3 of the report).
2. The Medium Term Financial Strategy 2018-2019 to 2019-2020 as detailed in Table 7 and the budget preparation parameters underpinning the MTFs as detailed in Appendix 1 to the report.
3. The budget allocation for Adult Social Care in 2018-2019 outlined in the report, making due consideration to the Minimum Funding Level for Adult Social Care (section 15.0 of the report).

4. A Council Tax for Council services in 2018-2019 of £1,540.21 for a Band D property, being an increase of 3.99% on 2017-2018 levels, which incorporates the 2% increase in relation to Adult Social Care (paragraph 7.5 of the report).
5. That work starts on developing budget reductions for 2019-2020 and progress be reported to Cabinet in July 2018 (paragraph 17.4 of the report).
6. Revisions to the local council tax reduction scheme to introduce: a disregard of bereavement support payment, a disregard of any payments made under 'We love Manchester Emergency Fund' (WLMEF) and the 'London Emergencies Trust' (LET) and to add wording to allow references to legacy benefits to include universal credit.

That Cabinet is recommended to approve:

1. The changes to the 2018-2019 draft budget for General Fund services, since the draft budget was last reported to Cabinet on 18 October 2017, as detailed in sections 3 to 16 of the report.
2. The implementation of the new budget reduction, income generation and efficiency proposals totalling £7.1 million, subject to consultation and equality analysis where necessary (paragraph 14.6 of the report).
3. The transfer any additional Section 31 grant monies in 2017-2018 arising as a result of the Revaluation 2017 into a specific reserve to support any future potential business rates pressures (paragraph 9.4 of the report).
4. That the findings from the budget consultation process will be used to inform the development of future years' budget strategies (paragraph 13.7 of the report).
5. The continuation of delegated authority as approved by Cabinet on 19 October 2016 to the Cabinet Member for Resources in consultation with the Director of Finance to continue to consider further opportunities to accelerate contribution payments to the West Midlands Pension Fund to secure additional savings and to agree the timing and amount of payments with the West Midlands Pension Fund (paragraph 5.5 of the report).
6. That authority be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share of business rates for 2018-2019 and 2019-2020 to be passported to the WMCA (paragraph 9.5 of the report).

Recommendations to note:

That the Cabinet notes:

1. That the budget for 2018-2019 is in balance without the use of general reserves (paragraph 17.2 of the report).
2. That, in the opinion of the Director of Finance (Section 151 Officer), the 2018-2019 budget estimates are robust (paragraph 17.3 of the report).
3. That, in the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year (paragraph 18.7 of the report).
4. That a further £19.5 million needs to be identified over the period to 2019-2020 in order to address the projected budget deficit (paragraph 17.4 of the report).
5. That, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council (paragraph 4.2 of the report).
6. That there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities particularly with regarding 2020-2021 onwards. The Comprehensive Spending Review 2020, the Fair Funding Review and potential pressures arising as a result of new responsibilities will impact upon the Council's budget. At the point that further information is known it will be incorporated into future reports to Councillors (paragraph 17.8 of the report).
7. That, having identified significant budget reductions over the last eight financial years, the extent of the financial challenge over the medium term continues to represent the most significant challenge that the council has ever faced (paragraph 17.5 of the report).
8. That the overall level of risk associated with the 2018-2019 Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020 is assessed as Amber (paragraph 19.1 of the report).
9. That Councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions (paragraph 24.3 of the report).

1.0 Purpose

- 1.1 This is the final report of the financial year on the 2018-2019 Budget and the Medium Term Financial Strategy for the period to 2019-2020. The report provides Cabinet with a budget for recommendation to Full Council.

2.0 Background and Summary

- 2.1 The 2017-2018 Budget and Medium Term Financial Strategy (MTFS) 2017-2018 to 2019-2020 was presented to Full Council for approval on 1 March 2017. The Council was able to set a balanced budget for 2017-2018 without the use of General Fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £20.5 million by 2019-2020.
- 2.2 It is important to note that the projected deficit already assumed the achievement of previously agreed budget reduction and income generation proposals amounting to £33.8 million over the three-year period to 2019-2020. Having identified budget reductions in excess of £200 million over the last seven financial years, the extent of the financial challenge over the medium term continued to represent the most significant challenge that the Council had ever faced.
- 2.3 In March 2017, Full Council approved that work started immediately to identify budget reductions to deliver the £14.8 million projected budget deficit in 2018-2019, with an update on progress to be reported to Cabinet in July 2017.
- 2.4 At this point, it was also projected that a further £5.7 million of budget reduction and income generation opportunities needed to be identified, over and above the target for 2018-2019, in order to address the projected budget deficit over the medium term to 2019-2020.
- 2.5 An update on budget reduction and income generation targets that had been identified during the first three months of this financial year was presented to Cabinet on 19 July 2017. The Council had identified a total of £12.5 million budget reduction proposals towards the strategy of identifying £14.8 million for 2018-2019.
- 2.6 Of the total £12.5 million budget reduction proposals identified for 2018-2019, it is important to note that £5.0 million are ongoing whilst £7.5 million are one-off budget reductions. Therefore, a significant element of the budget reduction proposals are one-off reductions that can be achieved in 2018-2019. Taking this into account, the remaining cumulative budget challenge to be identified by 2019-2020 stood at £15.5 million.
- 2.7 All £12.5 million of budget reduction proposals presented to Cabinet in July 2017 have been classified as Financial Transaction and Base Budget Revisions which can be implemented without reliance on the outcome of formal budget consultation.

- 2.8 Work continued during the second quarter of 2017-2018 to develop those budget reduction proposals and to identify further possibilities to deliver the remaining target of £2.3 million required to meet the budget deficit for 2018-2019.
- 2.9 Over the summer period, detailed work continued to take place and a further update was provided to Cabinet on 18 October 2017. At this meeting, Cabinet approval was sought to reprofile the previously approved Waste and Recycling budget reduction targets totalling a cumulative £2.1 million to 2019-2020, to reflect the anticipated implementation date. As a result of this, the remaining budget deficit to be identified for 2018-2019 increased from £2.3 million to £4.4 million. However, Cabinet approval was also sought to implement a further three financial transaction proposals in 2018-2019 totalling £4.4 million, which it is projected will enable the Council to set a balanced budget for 2018-2019.
- 2.10 Since October 2017, the 2018-2019 budget setting process has continued with the identification of further budget reduction proposals and emerging budget pressures, as detailed in Sections 3 to 16. In summary, a balanced budget for 2018-2019 is proposed without the use of general reserves.

3.0 Local Government Finance Settlement

- 3.1 On 19 December 2017, the Government announced the provisional local government finance settlement, referred to herein as the provisional settlement, for 2018-2019. A report to Cabinet (Resources) Panel on 16 January 2018 outlined the headlines from the settlement including: a change to the referendum limit on council tax increases in 2018-2019 and 2019-2020 from 2% to 3%, the announcement of a consultation on the Fair Funding Review to be implemented in 2020-2021 and the continuation of capital receipts flexibility to pay for transformation work that is designed to make revenue savings for a further three years.
- 3.2 The continuation of the existing 100% business rate retention pilots until 2019-2020 were also noted in the provisional settlement; this includes the West Midlands pilot. However, the provisional funding levels reflect a mixture of the 100% business rate retention scheme and the 49% business rate retention scheme for 2018-2019 and 2019-2020 respectively.
- 3.3 It was announced in the provisional settlement that there is an aim to move to 75% business rate retention for all local authorities by 2020-2021. This will be achieved by incorporating existing grants including RSG and Public Health Grant. As with the pilot schemes, local authorities will be able to keep 75% share of the growth. The redistribution of business rates from 2020-2021 will reflect the outcome of the new Fair Funding review.
- 3.4 Details of the Final Local Government Finance Settlement, referred to herein as the final settlement, were released on 6 February 2018. In the main, the final settlement is in line with the provisional settlement. The Minister for Housing, Communities and Local

Government announced that for England additional funding totalling £150 million would be made available through the Adult Social Care Support Grant and an £16 million would be made available through the Rural Services Delivery Grant in 2018-2019, the latter of which will have no impact for the Council. However, as a result of this announcement, the Council will receive an additional one-off Adult Social Care Support Grant totalling £860,000 in 2018-2019.

- 3.5 It was hoped that the final settlement would reflect the 100% business rate retention scheme for 2018-2019 and 2019-2020, however as detailed in paragraph 3.2 above the final settlement still reflects the mixture of the 100% business rate retention scheme and the 49% business rate retention scheme for 2018-2019 and 2019-2020 respectively. The basis on which the resources have been built in to the MTFs therefore reflect final settlement levels but have been amended to take into account our forecast of the changes that will result from the 100% business rates retention for 2019-2020.
- 3.6 Section 11 of this report provides further detail on forecast grant funding.

4.0 Medium Term Financial Strategy – Key Assumptions

- 4.1 The major budget assumptions used in the preparation of the Medium Term Financial Strategy are set out in Appendix 1. Specific assumptions are set out in more detail in the following sections.
- 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, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council. The 2018-2019 budget is the third year of the Comprehensive Spending Review 2015, which covers the parliamentary period to 2019-2020.

5.0 Pay Related Pressures

- 5.1 The approved MTFs includes a provision for an increase in pay award of 1% in 2018-2019 and 2% in 2019-2020. The National Employers have made a proposal, currently under consideration, that may increase the national paybill by 2.7% in 2018-2019 and 2.8% in 2019-2020. It is anticipated that the proposed model will increase the pay costs of the Council by at least £1.9 million in 2018-2019.
- 5.2 Further to this, detailed work has been undertaken to assess the likely impact of Auto Enrolment, increases in employer's National Insurance contributions and a review of the agreed pension payments in line with the West Midlands Pension Fund 2016 triennial valuation.

- 5.3 The projected increase arising from these combined 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

	2018-2019 £000	2019-2020 £000
Pay Awards, Employers Pension and National Insurance	7,942	7,412
Annual Increments	1,000	1,000
	8,942	8,412

- 5.4 On 19 October 2016, Cabinet approved that authority be delegated to the Cabinet Member for Resources in consultation with the Director of Finance to explore the option of making further pension contributions to the West Midlands Pension Fund in 2017-2018, in order to reduce the total costs and secure on-going budget reductions to support the budget challenge that the Council will face in future years.
- 5.5 As approved in July 2017, a payment of £5.5 million was made in 2017-2018 towards the 2018-2019 requirement. As previously approved, the remaining balance will be paid in April 2018 to secure a reduction in payment due to lower interest costs. Further, it is proposed that payments relating to 2019-2020 are paid in April 2018. This will result in a saving of approximately £1.4 million as detailed in Appendix 5. Cabinet approval is sought for the continuation of delegation to the Cabinet Member for Resources, in consultation with the Director of Finance, to consider further opportunities to accelerate contribution payments to secure additional savings and to agree the timing and amount of payments with the Pension Fund.

6.0 Budget Pressures and Developments

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

6.2 Table 2 – Budget Pressures and Developments

	2018-2019 £000	2019-2020 £000
Inflationary Pressures	2,779	1,507
Demographic and Demand Pressures	6,370	4,140
Developments	(116)	(111)
	9,033	5,536

- 6.3 Inflationary pressures include utilities and the impact of the increases in the National Living Wage in relation to external contracts.
- 6.4 Demographic and Demand Pressures mainly relate to Adult and Children's Social Care provision, as detailed in the following paragraphs.
- 6.5 The budget has been increased to reflect a budget pressure relating to No Recourse to Public Funds (NRPF) and Section 17 totalling £500,000. NRPF applies to migrants who are 'subject to immigration control' and as a result of this have no entitlement to certain welfare benefits, local authority housing and homelessness assistance. In Wolverhampton, on average one family per week are presenting themselves through to Children's Services for support. We are currently supporting 51 NRPF families. The only legal recourse to support these families is defined by the Children Act 1989 as Children In Need. Therefore, daily subsistence and rent is being provided by the Section 17 (Children Act 1989) budget. This is posing considerable demands on budgets which cannot be sustained at the current level.
- 6.6 In addition to this, a budget pressure totalling £600,000 has arisen in relation to Deprivation of Liberty Safeguards due to the increased caseloads placed on the DoLS teams following the Supreme Court judgement that lowered the threshold for what constitutes a deprivation of liberty in care.
- 6.7 In April 2017, Cabinet approved an updated policy for Financial Support to Carers of Children Subject to Adoption, Special Guardianship or Child Arrangement orders. The update was required to ensure that the Council is not only compliant to changes in regulations but also that it is compliant with recent case law. In the short term, it is anticipated that there will be an increase in payments of approximately £440,000 and the budget has been increased to reflect this. However, in the longer term, due to the changes in the proposed policy and the implementation of a more rigorous means test, it is anticipated that that the initial increase will be contained within the approved budget.
- 6.8 The increase in Development Pressures relate to ICT Enterprise Licences. Historically the cost of licences associated with our software has been capitalizable against software. The changing nature of ICT technology and the move to cloud based solutions results in a change to the way in which we procure access to services. It is anticipated that this may result in a change to the nature of the expenditure in that it is now revenue in nature. Therefore, the ICT revenue budget has been increased by £800,000 in 2018-2019 to address this pressure.
- 6.9 A full list of budget pressures that have been incorporated into the budget and medium term financial strategy can be found at Appendix 6.
- 6.10 Furthermore, financial transaction and base budget adjustments arising as a result of the detailed budget setting process that have been incorporated into the budget and medium term financial strategy can be found at Appendix 5. The financial transactions include updated assumptions regarding auto-enrolment and the early payment of pension deficit, as referenced in Section 5.0. In addition to this, the budget has been adjusted to

incorporate the approved West Midlands Combined Authority Transport Levy and constituent authority contributions totalling £10.8 million.

7.0 Council Tax

- 7.1 The Council Tax Base and NDR (Business Rates) Net Rate Yield 2018-2019 report was presented to Cabinet (Resources) Panel on 16 January 2018. Cabinet approved that authority be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, for any amendments to the Council Tax Base arising as a result of further information becoming available after this date but before the deadline of 31 January 2018. The Council Tax Base for 2018-2019 has therefore been approved by the Cabinet Member for Resources in consultation with the Director of Finance, via an Individual Executive Decision Notice, at 62,959.19 Band D equivalents.
- 7.2 In the Autumn Spending Review 2015 the Government announced that it is to allow local authorities with adult social care responsibilities, the power to raise an additional 2% through Council Tax to fund adult social care. The 2% would be in addition to the Council Tax referendum limit and would need to be used for adult social care only. Subsequently, in the Provisional Settlement 2016 the Government announced that local authorities could increase the precept to 3% each year for 2017-2018 and 2018-2019 if they were minded to, but could not exceed 6% in total over the three-year period to 2019-2020. The assumption in the MTFs and budget consultation reflects an increase of 2% per annum to 2019-2020 and it is not proposed to change this approach.
- 7.3 Further to this, in the provisional settlement for 2018-2019 the Government announced a change to the referendum limit on Council Tax increases in 2018-2019 and 2019-2020 from 2% to 3%. This would therefore enable the Council to increase Council Tax by a maximum of 5.99% in 2018-2019; the sum of 2.99% Council Tax increase plus a 3% adult social care precept.
- 7.4 This report recommends an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 2%, totalling 3.99% for 2018-2019, in line with the approved MTFs assumptions.
- 7.5 Table 3 details the resulting impact on the level of the Council element of Council Tax for a Band D property in 2018-2019. Details of the impact on all bands can be found in Appendix 2.

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

Band D	£
2017-2018 Council Element of Council Tax (including adult social care)	1,481.12
1.99% increase	29.47
2% Adult Social Care Precept	29.62
	1,540.21

7.6 It is projected that income from Council Tax will rise in subsequent years, based upon the latest collection rates and tax base. Current projections continue to assume that Council Tax will continue to increase by the referendum limit of 1.99% and the 2% adult social care precept in 2019-2020, whilst the tax base is anticipated to rise by 0.5%.

8.0 Council Tax Reduction Scheme

8.1 Since the abolition of the national council tax benefit scheme in 2013, the Council has been responsible for designing its own scheme of council tax support. The introduction of Universal Credit and changes to the Housing Benefit regulations necessitate some minor adjustments to the scheme.

8.2 A new benefit, bereavement support allowance was introduced by the Government in April 2017. Housing benefit regulations have been updated to disregard this benefit when calculating income. The Council's council tax scheme requires amendment to permit the disregard of these amounts.

8.3 Following the terrorist attacks during 2017, Manchester City Council launched a 'We love Manchester Emergency Fund' (WLMEF) and London set up the 'London Emergencies Trust' (LET). Payments from both of these schemes are disregarded from income used to calculate housing benefit and the Department for Work and Pensions has requested councils to mirror this in their council tax support schemes.

8.4 Universal Credit is currently being rolled out across the city replacing six legacy benefits. The current council tax support scheme has multiple references to the legacy benefits and few to universal credit. Amendment is required to maintain the status quo.

8.5 It is therefore recommended that Cabinet approve a revision to the local council tax reduction scheme to introduce: a disregard of bereavement support payment, a disregard of any payments made under 'We love Manchester Emergency Fund' (WLMEF) and the 'London Emergencies Trust' (LET) and to add wording to allow references to legacy benefits to include universal credit.

9.0 Business Rates

9.1 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Ministry for Housing, Communities and Local Government (MHCLG) by the deadline of 31 January 2018. In October 2016, Cabinet approved that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority, will participate in a business rates retention pilot from April 2017, on a no financial detriment basis. The continuation of this arrangement to 2019-2020 was noted in the provisional settlement in December 2017. As a result of entering into this pilot, the Council will retain 99% of the business rates but no longer receive Revenue Support Grant and instead receive a Top Up Grant adjustment to account for the net effect of the

changes. As a result of updated information available to the Council, the Cabinet Member for Resources in consultation with the Director of Finance approved, via an Individual Executive Decision Notice, the final business rates yield for 2018-2019 at £73.6 million of which the Council will be expected to retain £72.8 million.

- 9.2 It is important to note that, regeneration within the City of Wolverhampton, in line with objectives in the Council's Corporate Plan, has had a short term negative effect on business rates income generation, however it is anticipated that this regeneration will have a significant positive impact on business rates yield in the longer term.
- 9.3 There are a number of Business Rates policies that the Government have stipulated for which the Council is reimbursed through Section 31 of the Local Government Act 2003. These include a cap of 2% on the small business multiplier and the cost of temporary doubling of Small Business Rate Relief. Grant income totalling £7.8 million is projected for 2018-2019 based upon the NNDR1 form returned to MHCLG by 31 January 2018. It is important to note however, that Government have recently consulted upon 3 options for reimbursing local authorities for the changes arising as a result of the Revaluation 2017 in the Section 31 grant calculation. The Government's preferred option, option C, has been included in the calculation of Section 31 grant on the NNDR1 form, however confirmation of this as the final calculation is yet to be received. It was hoped that clarification would be provided as part of the final settlement.
- 9.4 Cabinet approval is sought to transfer any additional Section 31 grant monies in 2017-2018 arising as a result of the Revaluation 2017 into a specific reserve to support any future potential business rates pressures.
- 9.5 One part of the West Midlands Devolution Deal included the West Midlands Combined Authority (WMCA) receiving the real terms growth in the central share of business rates, which came into effect from 1 April 2016 onwards. This was the share that was previously held by central government. For 2016-2017, the MHCLG devised a formula, set out in legislation, to calculate real terms growth between 2015-2016 to 2016-2017. The growth arising in the central share in 2016-2017, as a result of applying this formula to each area in the West Midlands in the WMCA, is then passported via local authorities to the WMCA. The application of the formula to the Wolverhampton area did not identify growth in business rates between 2015-2016 to 2016-2017, therefore no payment will be passported.
- 9.6 There has been some complexity in identifying the true business rates growth between years due to business rates appeals and the 2017 revaluation, however a one-off approach to allocate the growth in the central share for 2017-2018 was approved by Cabinet (Resources) Panel on 16 January 2018. Cabinet (Resources) Panel approved the City of Wolverhampton Council's contribution of £228,000 to the WMCA. This payment was calculated by taking the assumed level of growth in the Combined Authority Investment Plan which was then apportioned to each authority on a pro rata to the aggregate Rateable Value at the start of the year.

9.7 Work is ongoing to agree a method of calculation for 2018-2019 and 2019-2020. As a result, the assumed level of retained business rates detailed in Table 7 is subject to change. It is proposed that Cabinet delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share for 2018-2019 and 2019-2020 to be passported to the WMCA.

10.0 Collection Fund Estimated Outturn

10.1 On 16 January 2018 Cabinet (Resources) Panel received a report detailing the estimated outturn on the Collection Fund for 2017-2018 which consisted of a projected cumulative surplus of £882,000 on Council Tax and a projected cumulative deficit of £1.7 million on Business Rates.

10.2 Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government to councils in the form of formula grant. From 2013 the Government gave local authorities the power to keep half of business rate income in their area by splitting business rate revenue into the 'local share' and the 'central share'. It is important to note, that the projected deficit on Business Rates has arisen primarily as a result of the backdating of Business Rates appeals prior to the 2013 localisation.

10.3 As detailed in paragraph 9.1 above, from April 2017 the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority, are participating in a business rates retention pilot, on a no financial detriment basis. Therefore, the Council retains 99% of business rates but no longer receives Revenue Support Grant and instead receives a Top Up Grant adjustment to account for the net effect of the changes.

10.4 Whilst there is an overall projected accumulated deficit for Business Rates in 2017-2018, the element of the deficit relating to 2016-2017 has to be accounted for under the previous 49% retention allocation for the Council and the element relating to 2017-2018 has to be accounted for under the 99% retention for the Council. Further details of this split can be found in Appendix 3.

10.5 The Council will retain £1.7 million surplus from the total estimated 2017-2018 Collection Fund accumulated deficit as detailed in Table 4.

Table 4 – Retained Element of Collection Fund Deficit

Elements of Collection Fund	(Surplus) / Deficit £000	Retained (Surplus) / Deficit £000
Council Tax	(882)	(790)
Business Rates	1,741	(936)
Total	859	(1,726)

11.0 Grants

- 11.1 As reported to Cabinet (Resources) Panel on 16 January 2018, in 2016-2017 the Government announced that New Homes Bonus payments would be reduced from six years to five in 2017-2018 (including prior years) and to four years from 2018-2019. This has been confirmed in the final settlement.
- 11.2 Whilst the Government have consulted on potential changes to the calculation of New Homes Bonus during 2017-2018, to link the allocation of grant to the number of successful planning appeals and to increase the baseline, the final settlement confirmed that there are no proposals to change the scheme at this stage and that the 0.4% base line announced in 2017-2018 will remain. In the final settlement, the Government have provided illustrative New Homes Bonus allocations for 2019-2020. However, in order to be prudent, the MTFs reflects the final New Homes Bonus allocation for 2018-2019 and the provisional settlement New Homes Bonus for 2019-2020, which is slightly lower than the illustrative update provided in the final settlement.
- 11.3 As detailed in paragraph 9.1 above, the Council is part of the West Midlands pilot for 100% business rates retention and will therefore continue to no longer receive Revenue Support Grant, but receive an amended Top Up Grant to reflect the business rates retention model; as was the case in 2017-2018. Top Up grant for 2018-2019 was confirmed as £34.4 million in the final settlement. Top Up grant in 2019-2020 is estimated to be £26.1 million but this will be subject to confirmation in the 2019-2020 local government financial settlement.
- 11.4 As detailed in paragraph 3.4, the Council has been allocated a one-off Adult Social Care Support Grant totalling £860,000 in 2018-2019. This grant will be passported to Adult Social Care.
- 11.5 Section 31 Grant compensates the Council for an element of mandatory business rates reliefs and the cap on inflationary increases on the business rates multiplier. As detailed in paragraph 9.3, Section 31 grant income totalling £7.8 million is projected for 2018-2019 based upon the NNDR1 form returned to MHCLG by 31 January 2018.

12.0 Fair Funding Review

- 12.1 As reported to Cabinet (Resources) Panel on 16 January 2018, the Government have announced in the provisional settlement a consultation on the Fair Funding Review to be implemented in 2020-2021. The funding baselines for local authorities are based on an assessment of needs and resources. The current methodology was last updated in 2013-2014. The consultation will last for 12 weeks to 12 March 2018 and focusses on the potential approaches identified to measure the relative needs of local authorities. Cabinet (Resources) Panel approved the delegation of authority to the Cabinet Member for Resources in consultation with the Director of Finance to agree a response to the consultation.

13.0 Budget Consultation and Scrutiny

- 13.1 On 18 October 2017, Cabinet approved that Financial Transaction and Base Budget Revisions totalling a net reduction of £12.5 million and a further three financial transaction proposals totalling £4.4 million in 2018-2019 be incorporated into the 2018-2019 draft budget. Further details are available on the Council's website using the following link <http://www.wolverhampton.gov.uk/financialstrategy>
- 13.2 At this meeting, Cabinet also delegated authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to finalise details of the Council's budget consultation process as part of the budget setting process for 2018-2019. The budget consultation took place from 19 October 2017 to 31 December 2017.
- 13.3 As all the budget reduction proposals were classified as Financial Transactions and Base Budget Revisions, which can be implemented without the reliance on the outcome of formal budget consultation, the budget consultation instead focused on the theme of working smarter together. During the consultation period, there were stakeholder engagement meetings with local communities, the Business Community and Trade Unions. The public and Council employee's views were also obtained through an online and booklet survey.
- 13.4 In addition to the wider budget consultation meetings, three additional meetings with representatives from the city's Equality and Diversity Forum, the city's Youth Council and Trade Union have been held.
- 13.5 During November and the start of December 2017, each Scrutiny Panel reviewed and scrutinised the draft budget 2018-2019 and the budget consultation process. All of these views and observations were then reported to Scrutiny Board on 5 December 2017 and Cabinet (Resources) Panel on 16 January 2018.
- 13.6 The results of budget consultation were also reported to Cabinet (Resources) Panel on 16 January 2018.

13.7 The findings from the budget consultation process will be used to inform the development of future years' budget strategies. The Council remains committed to the budget consultation process and wishes to place on record thanks to those individuals and interest groups who participated.

14.0 Budget Reduction Proposals

14.1 Given the challenging financial environment which the Council finds itself in, a focus on medium term financial planning is vital. Cabinet therefore approved on 18 October 2017, that work continues to identify budget reduction proposals that will work towards the budget challenge to be delivered by 2019-2020.

14.2 When identifying budget reduction and income generation proposals the Council's strategic approach to address the budget deficit continues to be to align resources to the Corporate Plan to achieve:

- A Stronger Economy
- A Stronger Community
- A Stronger Organisation.

Investment in the future is essential for both the Council and the City.

14.3 Since October 2017, further work has taken place to identify new proposals; categorised as budget reduction, income generation and efficiency proposals. The proposals that have been identified at this stage are summarised by Cabinet Portfolio in the table below:

Table 5 – New Proposals by Cabinet Portfolio

Cabinet Portfolio	2018-2019 £000	2019-2020 £000
Resources	(365)	(605)
Governance	(105)	(95)
City Assets and Housing	(600)	(665)
City Economy	(125)	(240)
City Environment	(430)	(625)
Adults	(905)	(670)
Children and Young People	(1,395)	(135)
Public Health and Wellbeing	-	-
Education	(120)	-
Total	(4,045)	(3,035)

- 14.4 As can be seen from the table above, the Council has currently identified a further £7.1 million proposals towards the budget challenge over the medium term. The proposals have been classified into Budget Reduction proposals - proposals upon which formal consultation is required, and Income Generation and Efficiency proposals – proposals which can be implemented after following internal consultation procedures as set out in HR policies for example or without consultation.
- 14.5 Further details on the proposals can be found in Appendix 4.
- 14.6 It is recommended that Cabinet approve the implementation of the new budget reduction, income generation and efficiency proposals totalling £7.1 million, subject to consultation and equality analysis where necessary.

15.0 Adult Social Care Funding

- 15.1 In January 2017, Cabinet approved the adoption of a minimum funding level for Adult Social Care in order that the Council can demonstrate to Government, public and other stakeholders that this grant, combined with the funds raised through the Adult Social Care Precept and the new Better Care Fund monies, have been fully passported to Adult Social Care.
- 15.2 It was agreed that the minimum funding level will use the 2015-2016 Adult Social Care budget as the baseline year and will be adjusted incrementally for the following elements:
- A reduction to reflect a proportion of corporate budget challenges arising from both reductions in Corporate Resources and increasing Corporate Budget pressures, for costs such as Treasury Management. The proportion will be fixed based on the baseline year of 2015-2016.
 - An increase to reflect 100% of the Adult Social Care funding from Adult Social Care Precept, Better Care Fund and the Adult Social Care grant.
- 15.3 The minimum funding level has been tracked from April 2016 onwards. The following table details the forecast minimum funding level for the period of the MTFS compared with the budget allocated to Adult Social Care.

Table 6 – Minimum Funding Level for Adult Social Care

	2016-2017 £000	2017-2018 £000	2018-2019 £000	2019-2020 £000
Minimum Funding Level	61,063	68,380	70,647	68,977
MTFS Budget for Adult Social Care	63,630	68,380	70,091	69,668
Variance	2,567	-	(556)	691
Cumulative Variance	2,567	2,567	2,011	2,702

15.4 As can be seen from the table above, the budget for Adult Social Care in 2018-2019 is £556,000 lower than the minimum funding level. However, the budget for Adult Social Care exceeded the minimum funding level in 2016-2017 and was further supported in that year due to an overspend. Furthermore it can be seen that the Adult Social Care budget continues to be overfunded initially but it is anticipated that this will move to a balanced position over medium term.

16.0 Capital Receipts Flexibilities

- 16.1 In 2016-2017 the Government allowed councils to use new capital receipts from April 2016 to March 2019 to pay for transformation work that is designed to make revenue savings. The provisional settlement announced the continuation of this flexibility for a further three years.
- 16.2 On 16 January 2018, Cabinet (Resources) Panel approved that capital receipts flexibilities are utilised beyond 2018-2019 to enable further transformation of services to deliver efficiencies.
- 16.3 The Capital Programme, as presented to Councillors for approval at this meeting, therefore includes assumptions about the level of capital receipts to be generated in 2018-2019 and 2019-2020 and the use of capital receipts to pay for revenue set up costs of transformational projects that are designed to make revenue budget reductions. This is also reflected in the MTFS.
- 16.4 Throughout the year, capital receipts generated will be reviewed and the opportunities to use capital receipts to fund transformational work will be maximised. The first call on any capital receipts available, above that which is already budgeted for, will be to fund the costs of redundancy.

17.0 Updated Budget and Medium Term Financial Strategy

- 17.1 Table 7 details projections for the period to 2019-2020; incorporating extensive budget preparation work that has been on-going in recent months for the 2018-2019 budget, in addition to those adjustments arising as a result of changes in assumptions, as detailed in this report.
- 17.2 The Council is now faced with finding further budget reductions estimated at £19.5 million for 2019-2020. The Council's proposed budget for 2018-2019 does not require the use of any general reserves in order to balance the budget.
- 17.3 The net budget requirement for 2018-2019 for General Fund services is £229.1 million. In the opinion of the Director of Finance (Section 151 Officer) the 2018-2019 budget estimates are robust.
- 17.4 However, work must start immediately to identify additional budget reductions to address the projected £19.5 million budget deficit for 2019-2020. It is proposed that the July 2018 report to Cabinet will include a high-level strategy for tackling this projected budget deficit.
- 17.5 It is important to note that the updated projected budget deficit assumes the achievement of budget reduction and financial transaction proposals amounting to £28.3 million over the two-year period from 2018-2019 to 2019-2020. Having identified budget reductions in excess of £200.0 million over the last eight financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.
- 17.6 The Council's proposed budget for 2018-2019 and the medium-term forecast is shown at Table 7. Further supporting information is available at <http://www.wolverhampton.gov.uk/financialstrategy>
- 17.7 An updated version of the Financial Plan will be produced to explain the extent of the financial challenge that is still faced by the Council to stakeholders. This document aims to inform stakeholders, in addition to supporting the 2019-2020 budget consultation process.
- 17.8 It is important to note that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities particularly with regarding 2020-2021 onwards. The Comprehensive Spending Review 2020, the Fair Funding Review and potential pressures arising as a result of new responsibilities will impact upon the Council's budget. At the point that further information is known it will be incorporated into future reports to Councillors.

Table 7 - Medium Term Financial Strategy 2018-2019 to 2019-2020

	2018-2019	2019-2020
	£000	£000
Previous Years Net Budget Brought Forward	222,583	229,140
Increasing/ (Decreasing) Cost Pressures		
- Pay Related Pressures	8,942	8,412
- Treasury Management	12,953	7,034
- Budget Growth	9,033	5,536
- Budget Reduction, Income Generation and Financial Transactions Proposals	(24,521)	(3,619)
- Net Impact of change in specific grants	150	-
	6,557	17,363
Net Budget (Before Use of Resources)	229,140	246,503
Projected Corporate Resources		
Council Tax (including Adult Social Care Precept)	(96,970)	(101,236)
Enterprise Zone Business Rates	(1,958)	(2,800)
Revenue Support Grant	-	-
Top Up Grant	(34,345)	(26,087)
Business Rates (net of WMCA growth payment and Collection Fund Surplus)	(74,082)	(74,308)
New Homes Bonus	(2,690)	(1,815)
Section 31 Grant - Business Rates support	(7,847)	(7,847)
Better Care Fund Grant	(6,454)	(11,000)
Adult Social Care Grant	(3,934)	(1,947)
Adult Social Care Support Grant	(860)	-
	(229,140)	(227,040)
Projected Annual Change in Budget Deficit/(Surplus)	-	19,463
Projected Cumulative Budget Deficit	-	19,463

18.0 General Fund Reserves

18.1 General Fund Balances

18.2 The Council's General Fund Balance stands at £10 million; this is the minimum balance as determined in the Council's Reserves and Balances Policy. As detailed in paragraph 17.2 the Council is able to set a balanced budget for 2018-2019 without the use of General Fund Reserves.

18.3 Emphasis therefore continues to be placed on identifying budget reduction and income generation proposals to meet the budget deficit for 2019-2020 as detailed in Table 7 without calling on general reserves.

18.4 Specific Reserves

18.5 Specific reserves represent monies set aside by the Council to fund future expenditure plans. On 8 December 2017, the Specific Reserves Working Group met to review and scrutinise the balances and movements of the Council's specific reserves to ensure that they are appropriately established and required.

18.6 The Group provided challenge in relation to a number of small reserves which have not been utilised for a number of years and asked that consideration be given to move the reserve balances to corporate reserves. As part of the closure of accounts process the Director of Finance will undertake a further review of these reserves and if no movements have been evidenced, the remaining balances will be moved to corporate reserves.

18.7 In the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year.

19.0 Budget Risk Management

19.1 The following table provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology. The overall level of risk associated with the 2018-2019 Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020 is assessed as Amber.

Table 8 – General Fund Budget Risks 2018-2019 to 2019-2020

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, Equal Pay and National Living Wage	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 identifying budget reductions, 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	<p>Risks that might materialise as a result of the Final Local Government Finance Settlement.</p> <p>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.</p> <p>The risk of successful appeals against business rates.</p>	Amber
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 taxation rules, the impact of exiting the European Union and, in particular, from the Care Bill.	Red

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

20.0 Evaluation of alternative options:

20.1 In determining the proposed amendments to the Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020, 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 be required in order to set a balanced budget in 2018-2019. This may therefore potentially impact upon service provision.

21.0 Reasons for decision(s):

21.1 It is recommended that the budget strategy for 2018-2019 and medium term financial strategy for the period to 2019-2020 including financial transaction, base budget revisions and budget pressures as set out in this report, is approved by Cabinet for recommendation to Full Council. In approving this strategy, the Council will be able to set a balanced budget for 2018-2019 and will be working towards identifying further budget reductions to contribute towards the Council's projected medium term budget deficit, which stands at £19.5 million to be identified by 2019-2020.

22.0 Financial Implications

22.1 The financial implications are discussed in the body of the report.
[MH/12022018/Z]

23.0 Legal Implications

23.1 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.

23.2 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.

23.3 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.

- 23.4 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).
- 23.5 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.
- 23.6 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.
- 23.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2018-2019.
[TS/12022018/Q]

24.0 Equalities implications

- 24.1 The council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives. A summary equalities analysis has been conducted on the overall budget proposals. This can be found on the Council's website via the following link: <http://www.wolverhampton.gov.uk/financialstrategy>
- 24.2 Budget reduction proposals will only be implemented on completion of an equalities analysis.
- 24.3 Councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions.

25.0 Human resources implications

- 25.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form was issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce employee numbers by up to 500 across the Council in the period 1 July 2017 up to 31 March 2018. These will be through both voluntary redundancy and budget reduction targets which could result in compulsory redundancies. Dependant on the approval of these recommendations the Council will make a decision on the numbers to be included in a new HR1 to be issue from the 1 April 2018.
- 25.2 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 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.
- 25.3 As part of the ongoing transformation of the Council, although many services are being, or will be, redesigned, it is not anticipated that as many employees will exit the organisation as in previous years. Changes to the make up of teams and alternative ways of working will require services to be restructured, but numbers will not reduce as significantly as they have done previously.
- 25.4 As detailed in the report, budgetary savings will be made through efficiencies with new and smarter ways of working and transformation initiatives. Income generation will also be key.
- 25.5 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.
- 25.6 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. Budget reduction targets to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations. If TUPE were to apply, appropriate consultation with relevant Trade Unions and affected employees, would take place.
- 25.7 There is on-going consultation with the trade unions on the impact of the Council's budgetary position and the targets being made to meet the challenges posed by it.

26.0 Schedule of Background Papers

Final Business Rates Yield and Council Tax Base 2018-2019, Individual Executive Decision Notice, 31 January 2018.

2018-19 Budget and Medium Term Financial Strategy 2018-19 - 2019-20 - Provisional Local Government Finance Settlement Update, report to Cabinet (Resources) Panel, 16 January 2018.

Collection Fund Estimated Outturn 2017-18, report to Cabinet (Resources) Panel, 16 January 2018.

Council Tax Base and Business Rates (NDR) Net Rate Yield 2018-2019, report to Cabinet (Resources) Panel, 16 January 2018.

Draft Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020, report to Cabinet, 18 October 2017.

Draft Budget and Medium Term Financial Strategy 2018-2019 - 2019-2020, report to Cabinet, 19 July 2017.

2017-2018 Budget and Medium Term Financial Strategy 2017-2018 – 2019-2020, report to Full Council, 1 March 2017.

Proposed S13A council tax reduction scheme 2018