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| <b>CITY OF<br/>WOLVERHAMPTON<br/>COUNCIL</b> | <b>Cabinet</b><br><b>11 July 2018</b> |
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|--|---|-------------------------------------|
| <b>Report title</b>                            | Draft Budget and Medium Term Financial Strategy 2019-2020 |                                     |
| <b>Decision designation</b>                    | AMBER   |                                     |
| <b>Cabinet member with lead responsibility</b> | Councillor Louise Miles<br>Resources                      |                                     |
| <b>Key decision</b>                            | Yes   |                                     |
| <b>In forward plan</b>                         | Yes   |                                     |
| <b>Wards affected</b>                          | All Wards   |                                     |
| <b>Accountable director</b>                    | Claire Nye, Director of Finance                           |                                     |
| <b>Originating service</b>                     | Strategic Finance   |                                     |
| <b>Accountable employee(s)</b>                 | Alison Shannon  | Chief Accountant                    |
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| <b>Report to be/has been considered by</b>     | Strategic Executive Board                                 | 28 June 2018                        |

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**Recommendations for decision:**

The Cabinet is recommended to approve:

1. The high-level budget strategy for 2019-2020, including directorate level budget reduction targets, for inclusion in the Draft Budget and Medium Term Financial Strategy 2019-2020, to be reported to Cabinet in October 2018.
2. That work continues between July and October 2018 to further develop and identify new budget reduction and income generation proposals towards the directorate level budget reduction targets for 2019-2020, in order to ensure that a balanced budget can be set in 2019-2020.
3. That progress on the development of budget reduction and income generation proposals be reported to Cabinet in October 2018 for approval to proceed to the formal consultation stage of the budget process.

4. That further options are explored between July and October 2018 to address the updated projected budget deficit of £3.3 million for 2019-2020 based on the Council's high-level strategy.

**Recommendations to note:**

The Cabinet is asked to note:

1. That a significant element of the high-level budget strategy for 2019-2020 relate to one-off opportunities that can be achieved in 2019-2020.
2. That the updated projected deficit assumes the achievement of budget reduction proposals amounting to £28.3 million over the two-year period from 2018-2019 to 2019-2020.
3. 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.
4. 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.
5. That the General Fund revenue outturn position for 2017-2018 was a net underspend of £781,000 (-0.35%) against the net budget requirement of £222.6 million, after meeting the net cost of redundancy and pension strain, after the use of capital receipt flexibility and, contributions to essential specific reserves, as reported to Cabinet at this meeting in the Revenue Budget Outturn 2017-2018 report.
6. That whilst the positive General Fund outturn position during 2017-2018, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; as detailed in this report.
7. That the Council's General Fund Balance remains at £10.0 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis therefore continues to be placed on identifying budget reductions and income generation proposals to meet the projected budget deficit over the medium term.
8. That the 2019-2020 budget timetable will, as in previous years, include an updated report presented to Cabinet in October 2018 detailing budget reduction and income generation proposals that will be subject to formal budget consultation during October – December 2018. Further to this, an update on all budget assumptions and the Provisional Local Government Settlement will be presented to Cabinet by January 2019, with the final budget report due to be approved by Full Council in March 2019.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Councillors with an update on progress towards identifying additional budget reduction proposals in order to address the projected £19.5 million budget deficit for 2019-2020.
- 1.2 This is the first report of the financial year on the Draft Budget and the Medium Term Financial Strategy (MTFS) for the period to 2019-2020.

## **2.0 Background and Summary**

- 2.1 The 2018-2019 Budget and Medium Term Financial Strategy (MTFS) 2018-2019 to 2019-2020 was presented to Full Council for approval on 7 March 2018. The Council was able to set a balanced budget for 2018-2019 without the use of General Fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £19.5 million by 2019-2020.
- 2.2 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.
- 2.3 In March 2018, Full Council approved that work started immediately to identify budget reductions to deliver the £19.5 million projected budget deficit in 2019-2020, with an update on progress to be reported to Cabinet in July 2018.
- 2.4 It should be noted that due to external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
- 2.5 Since the 2018-2019 budget was set, work has been ongoing across the Council to identify opportunities and cross-cutting strategies to support the budget strategy for 2019-2020.
- 2.6 This report provides an update on progress, proposes a high-level budget strategy for 2019-2020 and details the pressures that the Council currently faces.

## **3.0 Budget Strategy 2019-2020 and the medium term**

- 3.1 The Council's strategic approach to address the budget deficit continues to be to align resources to the Council's Corporate Plan 2016-2019.
- 3.2 The Council will soon be undertaking a review of the Corporate Plan 2016-2019 and will be developing the Council's Corporate Plan 2020-2025. Over the medium term, resources will continue to be aligned to enable the realisation of the Council's core objectives of achieving:

- a Stronger Economy to provide inclusive growth,
- Stronger Communities to build resilience,
- a Stronger Organisation focused on organisational development.

- 3.3 Investment in the future is essential to achieve the Council's Corporate Plan and also the City Vision.
- 3.4 Since the 2018-2019 budget was set in March 2018, work has been ongoing to identify a high-level strategy to address the projected budget challenge of £19.5 million for 2019-2020.
- 3.5 The various opportunities, as detailed in the paragraphs below, may in some instances require further analysis and consideration which will take place between July and October 2018, prior to being incorporated into the Draft Budget and Medium Term Financial Strategy 2019-2020 report which will be presented to Cabinet for approval in October 2018.

#### **One-off funding streams**

- 3.6 Following the positive General Fund revenue outturn position for 2017-2018, as reported to Cabinet at this meeting in the Revenue Outturn 2017-2018 report, it is proposed that one-off funds in the region of £1.5 million be released from Corporate earmarked reserves in 2019-2020 to support the Budget and MTFs.
- 3.7 In addition to this, it is proposed that one-off funds totalling £500,000 be released from the Job Evaluation reserve in 2019-2020. This reserve was created to fund legal costs associated with Job Evaluation. A review of the anticipated future costs indicates that this reserve can be reduced.
- 3.8 It is also anticipated that treasury budget adjustments, capital receipts and PFI re-financing could generate funds in the region of £2 million to support the budget strategy in 2019-2020. As previously reported to Cabinet, the Government allowed councils to use new capital receipts from April 2016 to March 2022 to pay for transformation work that is designed to make revenue savings. Further exploratory work is currently being undertaken and an update will be provided to Cabinet in October 2018.
- 3.9 A recent ruling by the European Court of Justice has raised the possibility of avoiding the need to charge VAT on some activities for which the Council currently charge the standard 20%. It is anticipated that the Council has overpaid VAT of £2.0 million from July 2007 to March 2018. Partners have been engaged to lodge a claim on behalf of the Council, and it is anticipated that the outcome should be known during this financial year.

#### **Council Tax**

- 3.10 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 1.99% to 2.99%. This would therefore enable the Council to increase Council Tax by a maximum of 4.99% in 2019-2020; the sum of 2.99% Council Tax increase plus a 2% adult social care precept.

- 3.11 The Budget and MTFS 2018-2019 to 2019-2020 approved by Full Council on 7 March 2018 assumes an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 2%, totalling 3.99% for 2019-2020. Taking into account the change in the referendum limit, it is proposed that consideration be given to increasing Council Tax by a further 1% in 2019-2020 to 2.99% as part of the 2019-2020 budget consultation process. It is forecast that additional funds in the region of £1.6 million could be realised in 2019-2020, if Council Tax were to be raised by an additional 1% and an increase in the council tax base was achieved following the delivery of new homes. The additional funds generated would support the delivery of key services.

#### **Realisation of Benefits from Existing Strategies**

- 3.12 It is anticipated that a number of existing strategies will realise further benefits that have not been incorporated into the MTFS. The Digital and Customer Services Transformation Programme and the Corporate Admin Review are some of the key transformational projects that are gaining momentum and will enable greater transformation of the organisation and the platforms upon which services are delivered to customers. Further work will be undertaken to assess the impact of benefits realisation and assumptions made in the MTFS, however at this stage it is projected that additional budget reductions in the region of £1.4 million will be realised.
- 3.13 Negotiations are currently underway with the Clinical Commissioning Group regarding the Better Care Fund for 2018-2019. It is proposed that income in the region of £1.7 million be built into the 2019-2020 budget strategy as it is projected this level of additional income will be received in 2019-2020, following previous years' negotiations on the Better Care Fund.

#### **Directorate Budget Reduction Targets**

- 3.14 Following the positive General Fund revenue outturn position for 2017-2018, it is proposed that proactive financial management across the Council is encouraged to identify efficiencies and mitigating actions to achieve underspends in 2018-2019.
- 3.15 In addition to this, it is proposed that Directorates be allocated budget reduction targets for 2019-2020, as detailed in the table below.
- 3.16 Directorates will continue to further develop and identify new budget reduction and income generation proposals between July and October 2018 towards the directorate level budget reduction targets for 2019-2020, in order to ensure that a balanced budget can be set in 2019-2020.
- 3.17 Progress on the development of budget reduction and income generation proposals will be reported to Cabinet in October 2018 for approval to proceed to the formal consultation stage of the budget process.
- 3.18 The overall impact of the revisions to the 2019-2020 draft budget, arising as a result of the items detailed in the paragraphs above, have been reflected in Table 1 below.

**Table 1 – Budget Strategy 2019-2020**

|  | <b>2019-2020<br/>£000</b> |
|--|---------------------------|
| <b>Projected Budget Challenge as approved by Council, March 2018</b> | <b>19,463</b>             |
| Council Tax  | (1,600)                   |
| One-off funding streams  |                           |
| Use of Corporate Reserves  | (1,500)                   |
| Reduction in Job Evaluation Reserve                                  | (500)                     |
| Additional Treasury Budget Adjustments/Capital Receipts              | (2,000)                   |
| VAT Refund   | (2,000)                   |
| Realisation of benefits from existing strategies                     | (1,400)                   |
| Recognise income for Adult Social Care from the Better Care Fund     | (1,700)                   |
| High level targets to be issued to Directorates                      |                           |
| Corporate  | (1,500)                   |
| People   | (2,000)                   |
| Place  | (2,000)                   |
| <b>Projected Budget Challenge as at July 2018</b>                    | <b>3,263</b>              |

3.19 Cabinet approval is therefore sought to incorporate the high-level budget strategy for 2019-2020, including directorate level budget reduction targets, into the Draft Budget and Medium Term Financial Strategy 2019-2020, to be reported to Cabinet in October 2018. This report will also seek approval to proceed to the formal consultation stage of the budget process.

3.20 Further options will also be explored between July and October 2018 to address the updated projected budget deficit of £3.3 million for 2019-2020 based on the Council's high level strategy.

#### **4.0 Update on Key Factors for 2018-2019**

4.1 The assumptions used in the preparation of the budget and Medium Term Financial Strategy (MTFS) remain under constant review and update.

4.2 The 2018-2019 budget includes previously approved budget reductions totalling £24.5 million. The achievement of these budget reductions is monitored throughout the financial year during the revenue budget monitoring process, with updates provided to Cabinet (Resources) Panel quarterly on the forecast outturn by service.

- 4.3 At the time of writing, emerging pressures within the Looked After Children, Visitor Economy and Corporate Landlord services, following overspends in 2017-2018 as reported to Cabinet at this meeting in the Revenue Outturn 2017-2018 report, are being kept under review. Service areas will focus on identifying ways to mitigate any pressures that arise.
- 4.4 In addition to this, on 2 February 2018 the Ministry of Housing, Communities and Local Government issued new Statutory Guidance on Local Government Investments and Minimum Revenue Provision (MRP). The majority of the guidance on MRP is effective from 1 April 2019, however the guidance is currently under review to any necessary changes to the Council's strategies.
- 4.5 In March 2018, following the approval of the Council's 2018-2019 budget, the Government announced that they had identified an issue in the calculation of Business Rates S31 grant within the NNDR1 return for business rate retention pilot authorities, including the City of Wolverhampton. The error in the calculation meant that local authorities were anticipating greater levels of S31 grant income than will actually be received in 2018-2019. Therefore, a budget pressure in the region of £690,000 will be recognised in the revenue budget monitoring for 2018-2019, however mitigating actions will be considered.

## **5.0 Future Uncertainties**

- 5.1 As reported to Cabinet on 20 February 2018, 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 regarding 2020-2021 onwards. The Comprehensive Spending Review 2020, the Fair Funding Review and potential pressures arising as a result of new responsibilities will all impact upon the Council's budget.
- 5.2 On 30 May 2018, the Government released a briefing paper which provided an update on business rates retention, the Government's proposals for changes to the local government finance system and the Fair Funding Review.
- 5.3 The briefing paper indicated that the Fair Funding Review will be implemented on 1 April 2020. It is anticipated that a series of technical consultations will be published mid-2018, with broad outlines of the new system available by winter 2018. Indicative numbers, comprising of individual local authority allocations following implementation are expected to be made available by summer 2019, with final numbers available later that year.
- 5.4 In addition to this, it was recently announced that the Government have delayed the publication of the Adult Social Care Green Paper until autumn 2018 so that it can be integrated with the new NHS plan, further adding to the uncertainty faced by the Council.

## 6.0 General Fund Outturn and General Balances

- 6.1 The General Fund revenue outturn position for 2017-2018 was a net underspend of £781,000 (-0.35%) against the net budget requirement of £222.6 million, after meeting the net cost of redundancy and pension strain, after the use of capital receipt flexibility and contributions to essential earmarked reserves, as reported to Cabinet at this meeting in the Revenue Budget Outturn 2017-2018 report.
- 6.2 The positive General Fund outturn position for 2017-2018, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it is important to note that it does not address the challenging financial position that the Council finds itself in over the medium term; as detailed in this report.
- 6.3 An element of the underspend arising within the 2017-2018 General Fund outturn is already factored into the Council's Medium Term Financial Strategy; in some cases budget reduction proposals have been achieved earlier than anticipated. Nevertheless, a comprehensive review of all services will be undertaken following the positive 2017-2018 General Fund outturn position to challenge areas of underspend and to identify any new budget reduction or income generation opportunities. Any budget reductions arising as a result of this review will be incorporated into the Draft Budget and Medium Term Financial Strategy report due to be presented to Cabinet in October 2018.
- 6.4 The Council's General Fund Balance remains at £10.0 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis therefore continues to be placed on identifying budget reductions and income generation proposals to meet the projected budget deficit over the medium term.

## 7.0 Budget Risk Management and Timetable

- 7.1 A summary of the 2019-2020 budget setting process timetable is detailed in the table overleaf:

**Table 2 – Budget Timetable**

|   |                               |
|---|-------------------------------|
| Report to Cabinet   | 11 July 2018                  |
| Intensive work to develop proposals   | July – October 2018           |
| Draft Budget and Medium Term Financial Strategy (MTFS) 2019-2020 report to Cabinet      | 17 October 2018               |
| Formal Budget Consultation  | 19 October – 31 December 2018 |
| Report to Cabinet (Resources) Panel following the Local Government Financial Settlement | 15 January 2019               |
| Final Budget Report 2019-2020 to Cabinet  | 20 February 2019              |
| Full Council Approval of Final Budget 2019-2020   | 6 March 2019                  |

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

**Table 3 - General Fund Budget Risks 2018-2019 – 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 | Risks that might materialise as a result of the Final Local Government Finance Settlement.<br>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.<br>The risk of successful appeals against business rates. | 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           |

## **8.0 Evaluation of alternative options:**

- 8.1 In determining the proposed high level budget strategy for 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 need to be identified in order for the Council to set a balanced budget in 2019-2020. This may therefore potentially impact upon service provision.

## **9.0 Reasons for decisions**

- 9.1 It is recommended that the high-level budget strategy for 2019-2020, including directorate level budget reduction targets, is approved by Cabinet for further development between July and October 2018. Cabinet will be provided with an update on progress in the Draft Budget and Medium Term Financial Strategy 2019-2020 report which will be presented to Cabinet in October 2018. In approving this strategy, the Council will be working towards identifying options to be able to set a balanced budget for 2019-2020.

## **10.0 Financial Implications**

- 10.1 The financial implications are discussed in the body of the report.  
[MH/02072018/Y]

## **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 budget reduction 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 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.
- 11.6 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.
- 11.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2019-2020.  
[TS/02072018/Q]

## **12.0 Equalities implications**

- 12.1 The further development of the various budget reduction proposals for Cabinet's consideration in October will include an initial equalities screening for each proposal and, where necessary, a full equalities analysis. This will enable Councillors to pay due regard to the equalities impact of their budget decisions. The Council will publish the equalities analyses as part of its public consultation around the 2019-2020 budget.

## **13.0 Human resources implications**

- 13.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form was issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce employee numbers by up to 500 across the Council in the period 1 April 2018 up to 31 March 2019. These will be through both voluntary redundancy and budget reduction targets which could result in compulsory redundancies.
- 13.2 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 be placed 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.

- 13.3 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.
- 13.4 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.
- 13.5 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.
- 13.6 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.
- 13.7 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.

#### **14.0 Schedule of Background Papers**

Revenue Budget Outturn 2017-2018, report to Cabinet, 11 July 2018.

Reserves, Provisions and Balances 2017-2018, report to Cabinet, 11 July 2018.

2018-2019 Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020, report to Full Council, 7 March 2018.