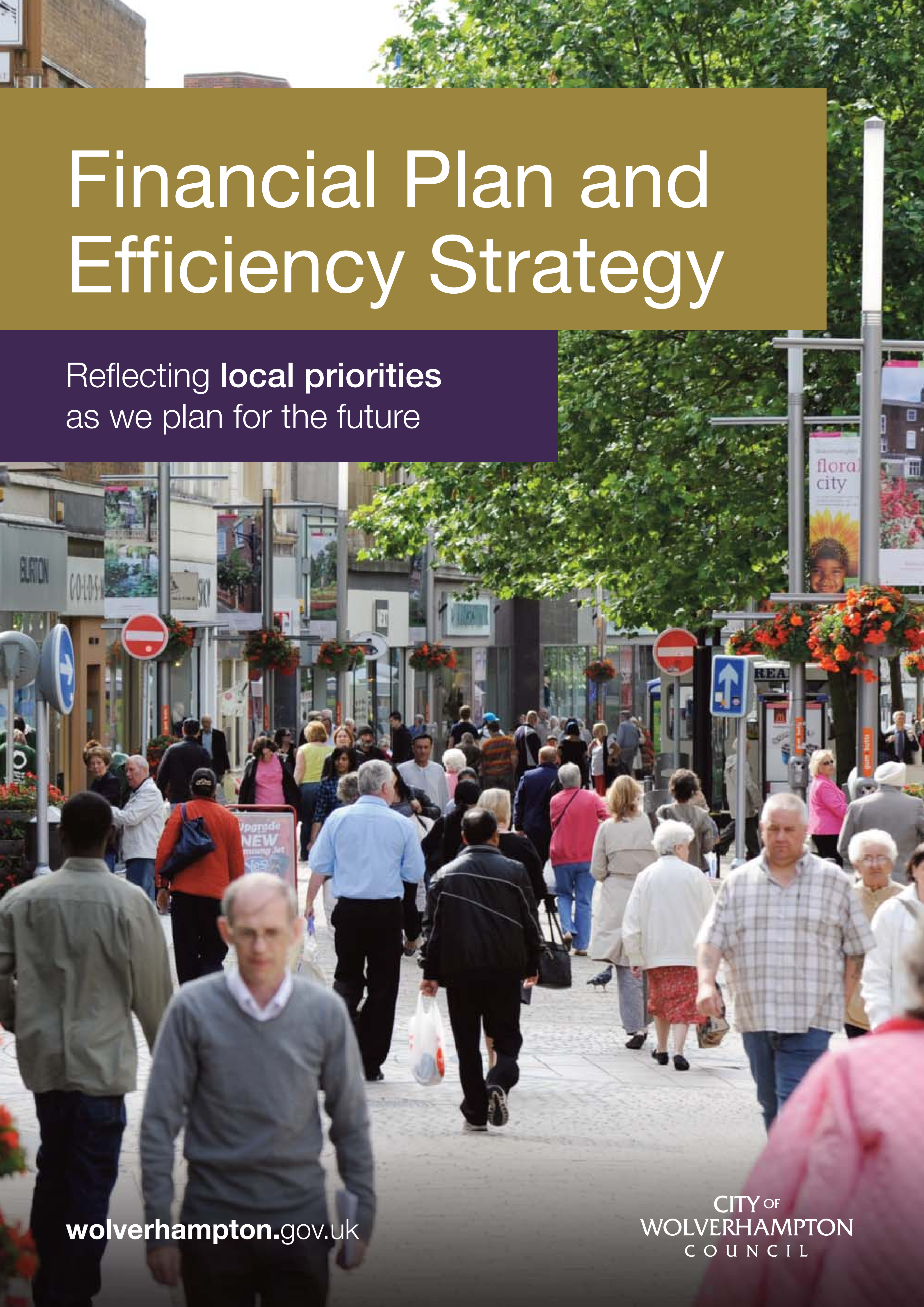
Financial Plan and Efficiency Strategy

Reflecting **local priorities** as we plan for the future



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CITY OF WOLVERHAMPTON COUNCIL


Bus & Rail
Lighthouse Centre
Grand Theatre
Civic Centre
Art Gallery

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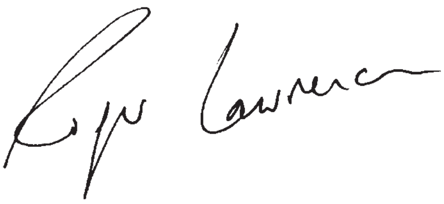
1. Forward

I am pleased to be writing this foreword to the latest version of our Financial Plan and Efficiency Strategy which sets out our plans and forecasts for the finances of the City of Wolverhampton Council. Our 2016/17 budget and latest Medium Term Financial Plan, which forms the foundation of this document and the Council's efficiency strategy, was approved by the City of Wolverhampton Council on 2 March 2016.

This plan seeks to explain to our residents, businesses and visitors the impact of the ongoing challenges that we face, the significant strides that we have made in finding solutions to these challenges and our efficiency strategy to achieve further budget reductions over the medium term. It sets out in detail the updated four-year plan for our day-to-day spend on essential services together with our capital investment strategy.

Despite Government cuts to our funding, we remain firmly committed to investing in our local housing, schools, roads and town centres and to use our resources efficiently and effectively to make Wolverhampton a better place to live, work and visit.

The period covered by this document pre-dates the government's planned introduction of greater devolution of core funding to local government. Much of the detail and the implications of this announcement still need clarification. It is to be hoped, however, that our future financial forecasts will be based on a far less centralised mechanism as the current system of grant funding from central government is phased out and councils are allowed to retain business rates.



Councillor Roger Lawrence
Leader of the Council

The Council's updated Financial Plan and Efficiency Strategy complements our most recent Corporate Plan which sets out our combined vision, ambition and priorities for the City of Wolverhampton. It also remains a key part of our Confident, Capable Council transformation programme, aimed at transforming the way we work and provides key information to support our annual budget consultation process. In the longer term it provides a stepping stone to our 'New Horizons' vision of what Wolverhampton will look like in 2030, founded on effective co-operation and collaboration across our City.

This document has again been updated to reflect the on-going progress that we have made to address significant cuts to our funding, at a time when demand for our services is unparalleled. By its very nature, the scale of the financial challenge facing us remains dynamic – if nothing more is done our updated budget deficit is projected to be £54.6 million per annum by 2019/20 - despite the Council identifying budget reductions of £175.0 million over the last six financial years. Our latest projections assume the achievement of £37.4 million of new budget reductions over the four year period from 2016/17 and it is vital that we deliver these savings.

We remain 100 per cent focused on our ambition to deliver these budget reductions as well as finding the additional £54.6 million that we require to balance the books. Despite the very severe challenges that we face, we are continuing to invest in services which you have identified as being a priority and I would like to thank everyone who has taken the time to respond to our consultation requests to help shape the City's budget.

The Council is determined to continue to invest in our City to stimulate growth and inward investment and, once again, our Financial Plan and Efficiency Strategy reflects this intent.

Keith

Keith Ireland
Managing Director

2. Executive Summary

General Services Revenue Budget

On 2 March 2016, the City Council approved the latest version of the General Services revenue budget and Medium Term Financial Strategy (MTFS).

The General Services revenue budget covers the cost of all day-to-day council services except council housing and is met through government grants, council tax, business rates and fees and charges raised by the Council. The Council's latest MTFS sets out the authority's planned income and expenditure over the medium term and shows a forecast budget deficit - a gap between the Council's income and expenditure - of £54.6 million by 2019/20.

There are two main reasons for this deficit:

- successive cuts in Government grant support have reduced the Council's financial resources.
- at the same time, substantially increased demand for council services, has left the Council facing greater cost pressures.

Throughout 2015/16, the Council continued to identify budget reductions while at the same time focusing on achieving its corporate priorities and investment aspirations. These priorities were shaped by residents, community groups and local businesses during the Council's earlier budget engagement campaign.

The Council has identified net budget reductions of £175 million over the last six financial years.

Whilst the Council has been able to set a balanced budget for 2016/17 without resorting to the use of its general reserves, this still leaves us £22.2 million short of our 2017/18 budget reductions target - and if nothing more is done, the budget deficit will rise to £54.6 million by 2019/20.

During the early part of 2016/17, work has been on-going in order to identify further budget reduction, income generation and base budget revisions for 2017/18 to tackle the £22.2 million shortfall. Significant progress has already been made towards the 2017/18 challenge. The focus is now on identifying the budget shortfall for 2018/19 and 2019/20.

The Local Government Association (LGA) has recently carried out an independent Finance Peer Review to examine and report upon the City of Wolverhampton's strategy for meeting the increasing demand for its services during a period of diminishing resources. Pleasingly, the LGA has reported that 'The Council has made major progress in its aim to achieve financial stability. There is strong leadership, prudent financial management and clear evidence of innovation. It is now timely to reflect on and refine the Financial Strategy so it further enables and supports the delivery of the ambitions of the City'.

Jaguar Land Rover's new Engine Manufacturing Centre at the i54 Business Park

Westside Development

General Services Capital Budget

Despite the financial challenges it faces, the Council is committed to supporting the City's economic growth and encouraging job creation and investment through its capital programme. It is important to note that the Council's capital investment attracts further inward investment to help the local economy to grow and thrive so every pound invested by the authority generates a local economic benefit well in excess of this initial investment.

Major investments over the medium-term include:

i10 Office and Commercial Building

The £11 million i10 office and retail facility was successfully opened in early 2016 attracting big name tenants such as Greene King and Tarmac.

i54 Business Park

The successful i54 Enterprise Zone scheme has to date attracted inward investment of around £600 million from Jaguar Land Rover, Moog, Eurofins and International Security Printers Ltd.

Wolverhampton Interchange

The i10 success is complemented by our plans for a fully integrated transport hub at Wolverhampton, providing an attractive and effective gateway for the Black Country with improved links to Birmingham and the proposed high speed railway (HS2). Work is due to begin on the new railway station next year.

Bilston Urban Village

The Regeneration of Bilston town centre including infrastructure, services and remediation work to bring major new residential and employment opportunities.

Civic Halls and Grand Theatre

This involves a major refurbishment and extension through the Black Country Growth Deal to meet demand and stimulate further economic development and investment in the City Centre.

Westside Development

The Council has recently named its preferred Westside developer as Urban and Civic plc to deliver a £55 million scheme, which includes a multi-screen cinema, restaurants, bars, hotel, multi-storey car park, apartments and public realm in two phases over five years.

Primary Schools Expansion Programme

The Council has approved £33.7 million of investment between 2015/16 and 2018/19 to meet predicted demand for school places in coming years.

Housing Budget

The Housing Budget is expected to have sufficient resources available over the next 30 years to fund the £1.6 billion of capital works that will be needed as well as meeting its management and maintenance obligations. In addition, budget reductions achieved following a review of the capital programme and other changes within the programme have released resources that will enable an additional 400 new homes to be built over the next four years, involving approximately £56 million of capital investment.

3. The Financial Plan and Efficiency Strategy Context and Development

The Financial Plan and Efficiency Strategy brings together the Council's vision, priorities, approved budgets, financial strategies and business plans. It remains a key constituent of our ambitious transformation programme focused on delivering a confident, capable council.

It provides a rounded view of the Council's finances, the challenges it faces and how it plans to respond to those challenges.

By law, the Council must work out annual revenue budgets for its General Services and Housing Accounts. This is why the coming year's council tax and housing rents are calculated in the February and March before the financial year begins in April.

Despite this fixed annual timetable, many of the Council's priorities have to be planned for over several years. The environment in which the Council works is also constantly changing. The Council tries to anticipate these changes to place the authority in the best possible position to respond to them. The Financial Plan and Efficiency Strategy not only reflects the Council's corporate priorities, but also plays a critical role in shaping the Council's vision, providing a framework within which decisions about future services can be made.

The Financial Plan and Efficiency Strategy in context

The Council's latest Financial Plan and Efficiency Strategy has been influenced by three key factors:

1. Overarching economic conditions

The overall pace of economic growth has slowed recently and whilst the economy is still expanding relatively steadily, performance across sectors is mixed, for example, the services sector is growing robustly but manufacturing and construction are struggling. The Government has continued its deficit reduction theme which was introduced at the start of the decade and its most recent budget confirmed further cuts to public spending of £3.5 billion over the current Parliament. During this time the Bank of England's base interest rate remained at half a per cent until its recent cut to a quarter of a per cent on 4 August 2016.

For the Council, the consequences of relatively historically low rates, cuts to public funding and general economic under performance are:

- lower borrowing costs, although this has also led to a poorer return on cash surpluses
- a significant reduction in income and a corresponding reduction in spending power
- a significant increase in demand for services

The continued uncertainty about future economic conditions makes accurate public sector financial planning difficult although the Government announced details of a four year grant settlement in its March budget in response to this. This has been welcomed by the Council as it will be able to place a greater degree of reliance on a substantial element of its medium term funding streams.

In order to secure the four-year indicative settlement, confirmation of an 'Efficiency Strategy' is required, a requirement that is met by our Financial Plan and Efficiency Strategy. We have made our application to the department for Communities and Local Government to secure the four year settlement. Uncertainty remains, however, regarding the impact of future business rates retention and revaluation plans and on-going dialogue regarding New Homes Bonus and Better Care funding, which together mean that the Council will still have to estimate a significant part of its total funding for the medium term.

2. Government spending cuts and controls

The Government's on-going austerity measures have resulted in cuts to local government funding that would have been inconceivable just a few years ago. Over the last six years, the value of grants awarded to the City of Wolverhampton Council by central Government has reduced by over 50% in real terms leaving the Council with over £126 million less to spend in 2016/17 than in 2010/11 (at 2016/17 prices).

At the same time as making cuts to grants, the Government has continued to make efforts to restrict council tax increases, including, in certain years, paying a one-off grant to councils that freeze their council tax, which Wolverhampton has availed itself to in the past.

However, because of budgetary pressures and Government grant, the City of Wolverhampton Council increased its council tax by 3.99% for 2016/17. This increase includes the newly permitted 2% ringfenced increase for spend on adult social care. The Financial Plan and Efficiency Strategy is based on the assumption that in 2016/17 and beyond, council tax will increase by 3.99% each year. Any actual increases in council tax will be agreed on an annual basis.

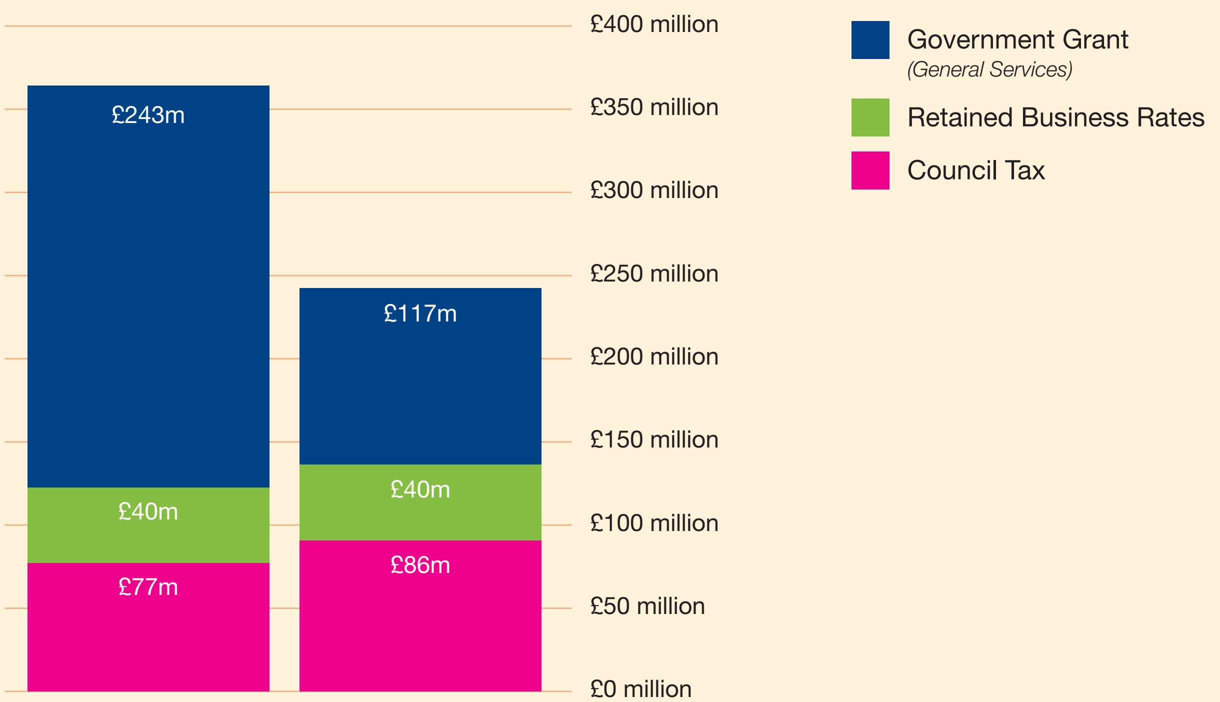
The chart below illustrates the structural change to the Council's funding over the last six years with reducing general grant funding from the government and a relatively greater reliance on locally raised monies to pay for services. This theme continued in the government's latest budget when a complete shake-up of future local government was announced to the extent that councils will be totally self-funded by the end of this parliament.

During the six-year comparison period shown in the chart below, the government's general grant funding methodology, together with some of the services for which local government is responsible, have changed.

The old Formula Grant system, for example, was abolished in 2013/14 and replaced by a less centralised funding system which included an element of business rates retention and the introduction of councils' own council tax support schemes. To enable a like for like comparison, the 2016/17 figures above have been adjusted to mirror the 2010/11 general grants funding format.

The chart, therefore, provides a genuine representation of the general grant funding loss for the City of Wolverhampton Council over the period concerned.

Chart 1: Loss of Resources 2010/11 to 2016/17 *(at 2016/17 Prices - £m)*



3. Social and demographic factors

Wolverhampton is one of the most densely populated local authority areas in England, with a quarter of a million people living in 26.8 square miles. The City's demographic profile is also changing as it attracts new residents and becomes increasingly diverse.

The latest Indices of Deprivation from 2015 show that since 2007, Wolverhampton has worsened from the 28th most deprived out of 326 council areas to the 19th most deprived. Deprivation in the City is also concentrated in a number of areas.

Wolverhampton's population is projected to increase by about 5,700 (2.3%) between 2014 and 2024. This growth rate is on a par with the Black Country average, yet below the national average, suggesting that if population were to be a dominant factor for the relative needs distribution of Government grant in the short term, prior to the proposed removal of general Government grant in 2020, then Wolverhampton would continue to receive a declining share of those resources. Chart 2 below shows Wolverhampton's population by five-year age bands in 2014 (estimated) and 2024 (projected).

The projected population increase, in particular an increase in the numbers of both younger (5-14) and older (55-90+) people, will mean increased demand for services to support families and individuals. As a result, it is likely that the Council's expenditure on these services will increase.

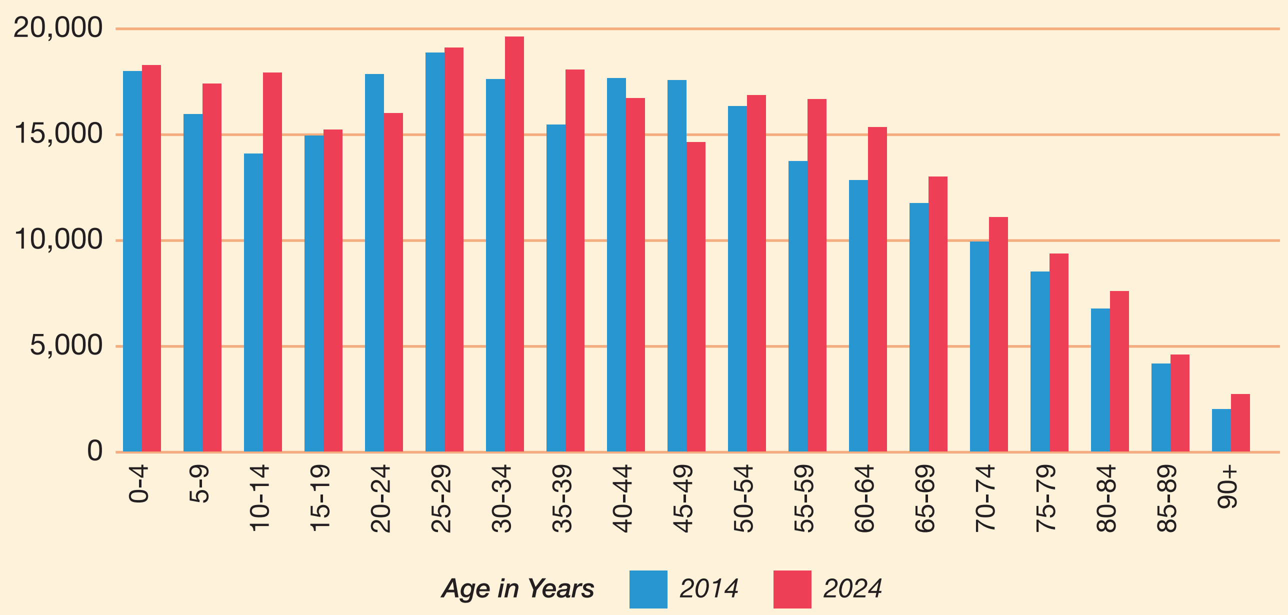
Other significant local factors include relatively high levels of unemployment and worklessness, which also increase demand for council services.

Consultation and equalities

The Council carries out extensive stakeholder consultation as part of the budget development process. The budget proposals are also considered by the Council's Scrutiny Board and Scrutiny Panels.

The Council has a legal duty to consider equality implications when making budget decisions. The outcomes of the consultations, scrutiny and equality analyses are taken into account by the Cabinet when making its recommendations to Full Council.

***Chart 2: Wolverhampton's Population; 2014** (Estimated) **and 2024** (Projected)*



Dudley Street, Wolverhampton

Budget development principles

To make sure that it is taking a long-term, strategic approach to budget development, the Council has historically planned its budgets to cover a five-year period. Given the remaining uncertainties surrounding the funding of local government in the medium-term, the Council has recently focused on projecting over a four-year period which also aligns with the government's new four-year financial settlement proposals.

The Council manages its budgets corporately – in other words, where it can, it will redirect money from one service to another in order to match limited and changing resources to the Council's highest priorities. Up to now, the Council has tried to safeguard those services that it considers to be highest priority. However, due to the scale of the budget cuts it is becoming virtually impossible to exempt any part of the Council's service from the need to find budget reductions. All managers have been required to find more efficient means of delivering their services as well as increasing income generation opportunities. This has meant major reductions in the Council workforce. Due to the scale of the challenges it has been, and will increasingly become, necessary to reduce the level of Council service provision in some areas.

Development of the Financial Plan and Efficiency Strategy

Though the Council works to an annual budget cycle, work on the Financial Plan and Efficiency Strategy goes on throughout the year. The Housing and General Services revenue budgets are approved by the Full Council in February and March of each year, on the basis of recommendations from the Council's Cabinet. Further details of the annual budget setting cycle are shown in the next section.

Annual Budget Setting Cycle

April
Previous year's accounts are closed.

May
Corporate Plan priorities are considered within the context of the Medium Term Financial Strategy (MTFS).

Budget reduction and income generation proposals are developed by Senior Management.

July
Previous year's Outturn is reported to Cabinet.

Cabinet and Confident, Capable Council Scrutiny Panel consider the Draft Budget Report (1 of 4).

Previous year's Outturn is reviewed to identify ongoing budget reductions and financial performance.

Update on new budget reduction and income generation targets against the MTFS, to be reported to Cabinet in July.

August
Budget reduction and income generation proposals continue to be developed.

September
Consider implications of new budget reduction and income generation proposals.

October
Cabinet consider Fees and Charges Report.

Cabinet considers the Draft Budget Report, including budget reduction, income generation and base budget revisions (2 of 4).

Formal Budget Consultation starts.

November
Detailed scrutiny of budget reduction and income generation proposals by all Scrutiny Panels.

Confident, Capable Council Scrutiny Panel considers the Draft Budget Report (2 of 4).

Review assumptions in MTFS for inclusion in December Cabinet report.

Calculate forecasts for council tax and business rates income.

December
Scrutiny Board provides the outcome of the first round of scrutiny.

Central government issues provisional settlement details for following financial year.

January
Cabinet and Scrutiny Panel consider the Draft Budget Report (3 of 4).

Cabinet note Forecast Collection Fund Outturn.

Cabinet approves the council tax base.

Cabinet receives outcomes of Budget Consultation.

Senior Management work with Cabinet to finalise proposals for presentation to Council.

Scrutiny Board provides the outcome of the second round of scrutiny.

February
Central government issues final settlement details for following financial year.

Cabinet receives and responds to the outcomes of scrutiny/budget consultation.

Cabinet approves the Final Budget Report.

March
Full Council votes on budget and council tax.

4. General Services Budget 2016/17

During 2016/17 we have been working for you by providing a variety of services. As an example, in Wolverhampton on average we…

empty
44,000
bins | caddies per day

at an annual cost of **£8.2 million**

clear and dispose of
11,000kg
of litter and debris from our streets per day

at an annual cost of **£2.6 million**

support
834
over 65's in residential and nursing care per day

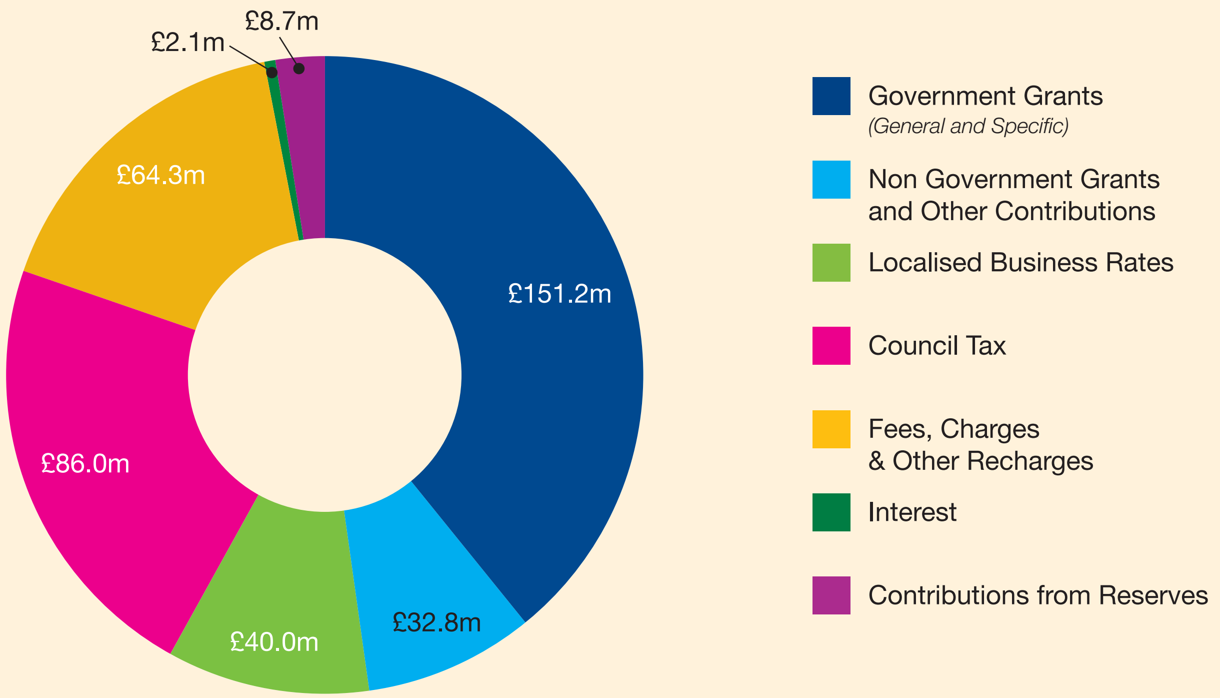
at an annual cost of **£9.5 million**

have
2,547
leisure centre visitors per day

at an annual cost of **£1.3 million**

The on-going funding pressures mean that the Council has had to make tough decisions about where to spend money - some of the services provided in the past will either change or be withdrawn in the future. The Chart below summarises the main sources of income for 2016/17.

Chart 3: Where the budget comes from 2016/17 *(exc. schools)*



NB: In Chart 1 Government Grants (£117m) excludes 'Specific Grants' whereas in Chart 3 Government Grants (£151.2m) includes both 'General' and 'Specific Grants'.

Below is more detail on the types of income included in each section.

Government Grants *(General and Specific)*

Includes general grants received from central government to help with the provision of general services, mainly in the form of Revenue Support Grant and Top Up Grant together with grants to spend on specific services (specific grants) which reflect government priorities, for example, Growth Hub funding.

Non-Government Grants and Other Contributions

Working in partnership, the Council also receives money to spend on specific services from non-government bodies such as the Health Authority and other Councils.

Localised Business Rates

This represents the proportion of business rates raised in the area that are retained by the Council to help pay for the cost of services.

Council Tax

This amount represents monies raised by the Council based on the value (banding) of a domestic property and the number of occupants.

Fees, Charges and Other Recharges

The Council also raises income by charging for several services which it provides such as car parking, leisure facilities and the rental of commercial premises.

Interest

The Council invests any cash surpluses that it holds in accordance with its approved treasury management policy to generate interest receipts to support the provision of services.

Contributions from Reserves

The Council holds general reserves as a contingency together with earmarked reserves for specific future use. The amount shown in the chart represents the planned use of reserves in year.

For 2016/17, the Council has continued to build on its recent strong record of identifying and achieving the necessary budget reductions enforced by central government and has set a budget to spend over £385 million of income on General Services for the year.

This was approved at the meeting of the Full Council on 2 March 2016 along with the 2016/17 to 2019/20 Medium Term Financial Strategy. The chart above excludes monies received from the Government by the Council for its schools (Dedicated Schools Grant) and for the administration of Council Tax Reduction and Housing Benefit payments, which is also funded by central government.

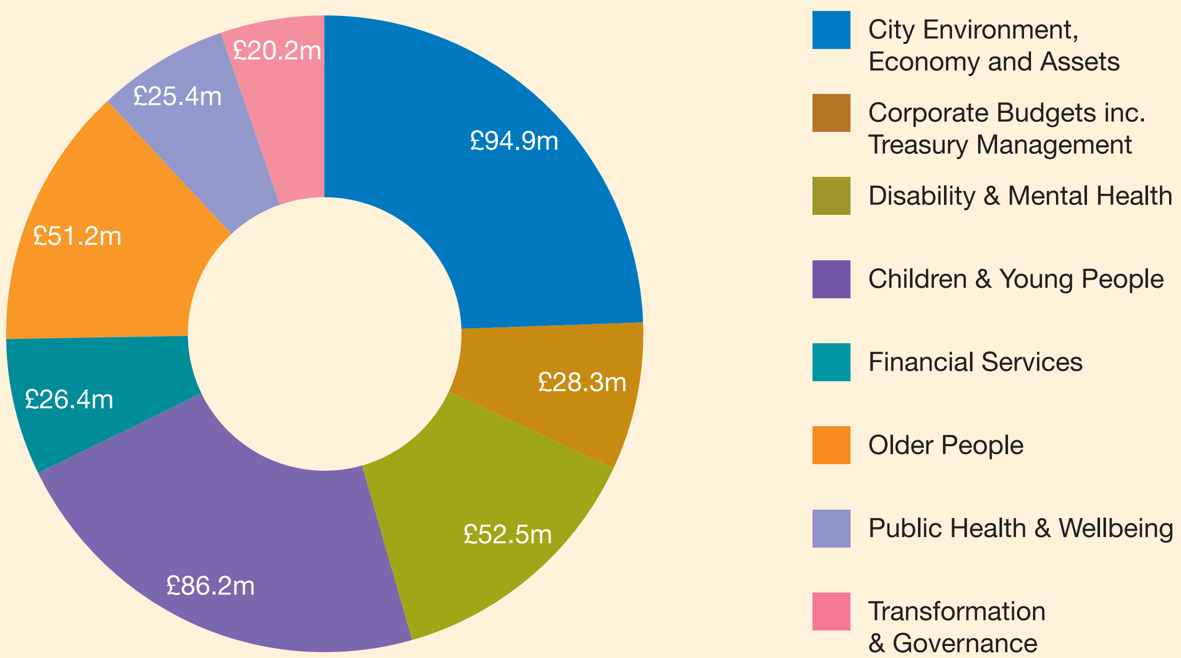
Aligning Corporate Priorities and Resources

The Council has clearly identified priorities and any decisions about where to spend money will be guided by these and consultation with our partners and stakeholders. The Council's priorities, which are set out in the Corporate Plan, support 'stronger communities' (People) and 'stronger economy' (Place) supported by a 'Confident Capable Council' (Corporate). This is reinforced by dedicated work streams within the Council to help increase efficiencies and/or the impact on income generation with a clear focus on: -

- Digital and Customer Services Transformation;
- increased commercialisation to take advantage of developing markets, for example, within the cultural services sector (the Civic Hall, Wulfrun Hall and the City Art Gallery);
- optimisation of both new and existing revenue generation opportunities, for example, the provision of leisure and fitness amenities through the WV Active initiative;
- developing more effective systems for the planning and management of services that are demand led, for example, the redesign of children's services, and
- developing the use of outcome based service planning over the medium term as an integral part of our Corporate Plan, to ensure that service outputs are aligned with our corporate priorities.

Once again, the latest approved budget was shaped by our budget consultation and the input of stakeholders. The Council's budget for 2016/17 reflects these locally identified priorities and continues to make the most vulnerable in our City its priority for services and investment. The key areas of spend are reflected in Chart 4 below.

Chart 4: Where we plan to spend the budget in 2016/17 *(exc. schools)*



Below are examples of the type of day-to-day services that are facilitated by the Council.

City Environment, Economy and Assets
Transportation, planning, economic development, markets and waste and recycling services.

Corporate Budgets
Interest and repayment of borrowing, ear-marked reserves, airport dividend and the Integrated Transport Authority (ITA) levy (Transport for West Midlands).

Disability and Mental Health
Assessment and care management and special educational needs.

Children and Young People
Child protection, looked after children and youth offending services.

Financial Services
Revenues and benefits, strategic financial and audit services.

Older People
Older people assessment and care management, older people welfare rights and independent living services.

Public Health and Wellbeing
Public health, health protection and community safety.

Transformation and Governance
Corporate transformation and improvement, information, communication and technology services, legal and democratic services.

5. General Services Medium Term Projections

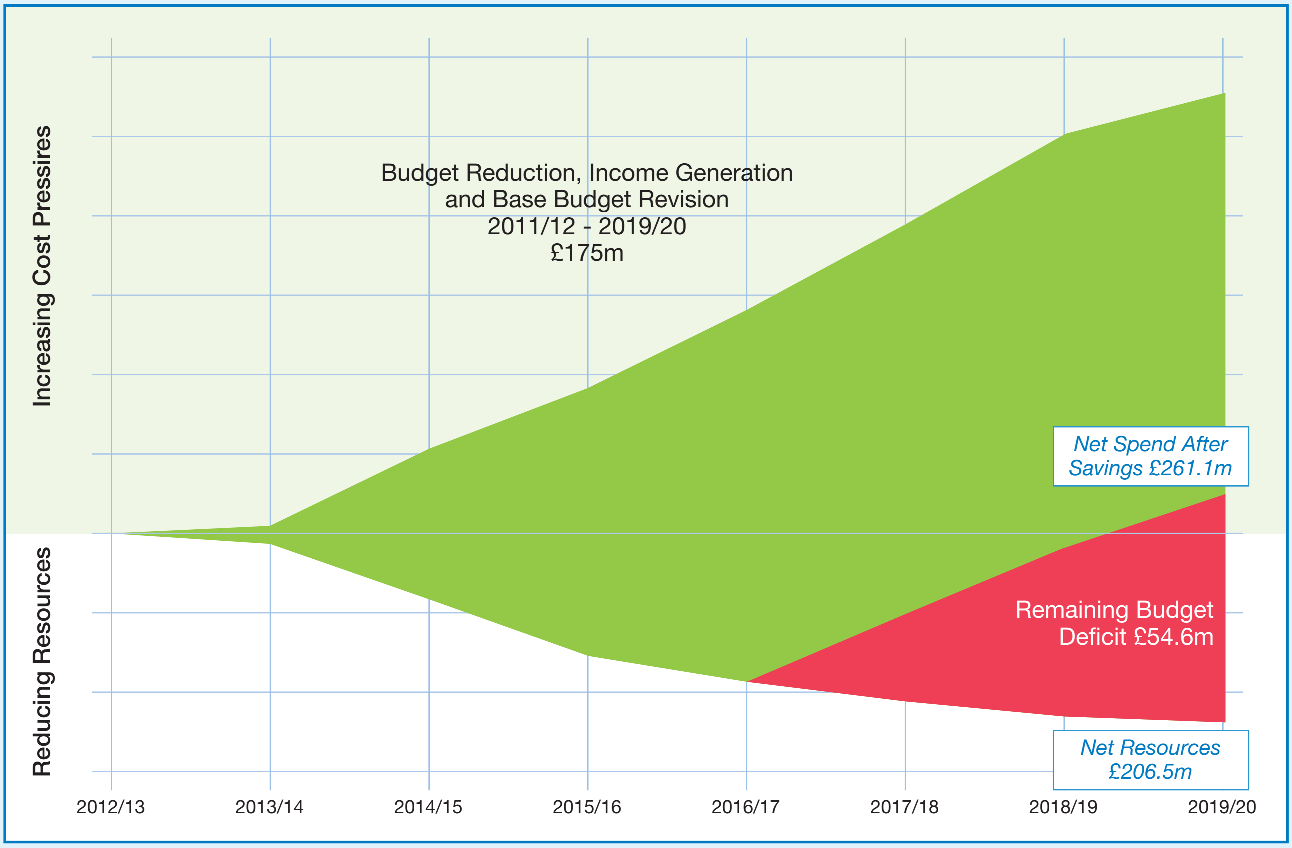
Since 2011/12, the Council has reduced its annual budget by over £175 million. Despite this, the latest projections show that there is still more to do and our current projections predict that if we take no further action by 2019/20, there will still be a £54.6 million shortfall in our resources, when compared against the cost of our services, as detailed below.

Table 1: General Services Financial Projections 2016/17 to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£ thousands			
Previous Years Net Budget Brought Forward	224,875	217,350	234,461	251,125
Increasing Cost Pressures	(7,525)	17,111	16,664	10.031
Net Budget	217,350	234,461	251,125	261,156
Projected Corporate Resources	(217,350)	(212,269)	(208,799)	(206,518)
Projected Cumulative Budget Deficit	**0**	**22,192**	**42,326**	**54,638**

The Council's financial challenge has arisen because of the reduction in funding combined with increases in costs and greater demand for services. Chart 5 below illustrates the excellent progress that the Council has made in delivering a balanced budget since 2012/13 (shaded green) together with the scale of the remaining challenge (shaded red).

Chart 5: Forecast Medium Term Budget Deficits - Analysed by Increasing Cost Pressures and Reducing Resources



The Art Gallery, Lichfield Street, Wolverhampton

The Council has recently welcomed an independent review by the Local Government Association (LGA) of its medium term financial strategy and how it plans to manage an increasing demand for its services at a time when its financial base is being eroded.

In particular, the LGA commented that:

- There has been significant progress, developments and improvements resulting in a good grasp of the current budgetary position and understanding of the future financial challenge.
- There is visible and well respected leadership - both political and managerial that provides a clear and consistent message about the scale of the challenge and the imperatives of responding to it.
- The finance function is well regarded and respected by Councillors and managers, and clearly plays an enabling role that supports transformation and the delivery of financial savings across directorates.
- The key governance, processes and systems including digital capability that support and enable financial planning, monitoring and management are in place or are being developed.
- The components of the financial strategy including commercialisation and demand management are consistent with practice in the sector.
- It is now timely to reflect on the strategy, approach and pace in light of the current position and future aspirations.

The Council has embraced the recommendations arising from the report and recognises that the challenge remains significant and there is no room for complacency. The fundamental requirement to deliver on existing budget reduction and income generation proposals whilst formulating new ones remains.

Balances and Reserves

The Council has balanced its 2016/17 budget without having to call upon any of its general reserves. Our general reserve balance, which is set aside for one-off contingent items and emergency spend, is projected to stand at £10 million by the end of March 2017. This balance represents less than 3% of our projected annual net spend on services so it is vital that we only use this money as a last call.

Our in year revenue budget monitoring for 2016/17 has indicated that, as with 2015/16, spend will be in line with the overall budget. The use of existing balances and reserves will help smooth the impact of the budget reductions that the Council has to make as a result of timing differences between income and expenditure. However, the Council's policy stipulates that a minimum of £10 million should be maintained in reserve. Taking account of this required minimum level of balances, a strategy of funding the projected budget deficit by drawing on reserves is not a viable option. Based on current projections, it would see those available reserves depleted during 2017/18. This clearly demonstrates that using reserves can only ever be successful in the very short-term and will not resolve medium-term funding issues.

The Future Budget Strategy

The Council recognises that having taken out over £175 million out of its annual budget over the past six years, it is extremely unlikely that any further major budget reductions can be made solely through efficiencies. During the early part of 2016/17, intense work has taken place to identify further budget reduction, income generation and base budget revisions for 2017/18 and significant progress has been made to date. This work is cyclical and the latest formal consultation on the budget will take place from 24 October 2016 to 14 January 2017.

The Council's objective is to deliver universal services as efficiently and cost effectively as possible, while delivering maximum benefit to individuals, families and communities.

Managing risks

The Council uses a Red, Amber, Green (RAG) system to analyse risk:

- Red status identifies problems that need serious attention and immediate action
- Amber status signifies that there are potential problems that must be managed closely and not allowed to become issues
- Green status means that everything is on track and there are no issues.

The overall risk associated with the City Council's Medium Term Financial Strategy is Red, due to significant unknowns such as Government funding and increased demand for services.

Victoria Street, Wolverhampton

6. Capital Investment Strategy

The Council's Capital Investment Strategy for the period 2016/17 to 2020/21 was approved by Full Council on 2 March 2016. When developing the Capital Programme, close attention is paid to the direct impact capital expenditure can have on revenue budgets, for example, the cost of borrowing in the form of interest charges. Table 2 below shows a summary of the Council's latest approved Capital Programme:

Table 2: Capital Programme and funding 2015/16 to 2020/21

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	**Total**
	£ thousands						
Expenditure General Services	68,490	129,225	48,865	17,952	8,944	1,691	275,167
Housing Services	50,769	57,005	57,812	32,278	29,360	22,301	249,525
Total Exp.	**119,259**	**186,230**	**106,677**	**50,230**	**38,304**	**23,992**	**524,692**
Financing External Funds	(38,678)	(44,802)	(19,464)	(4,393)	(4,262)	0	(111,599)
Internal Funds	(80,581)	(141,428)	(87,213)	(45,837)	(34,042)	(23,992)	(413,093)
Total Financing	**(119,259)**	**(186,230)**	**(106,677)**	**(50,230)**	**(38,304)**	**(23,992)**	**(524,692)**

Capital Investment

Despite the financial constraints, the Council remains committed to an ongoing programme of capital investment to support the economic growth of the area and employment opportunities for the City's residents.

i10 Office and Commercial Building:

This is demonstrated by the Council's investment in the £11 million i10 building which offers top grade office and commercial space and was successfully opened in early 2016, attracting big name companies such as Greene King, Tarmac, Ovivo and Countryside to the City.

i54 Business Park:

Another example is the successful i54 Enterprise Zone scheme which, to date, has attracted inward investment of around £600 million from Jaguar Land Rover, Moog, Eurofins and International Security Printers Ltd.

The Black Country Local Enterprise Partnership has also agreed an expansion to the Growth Deal with central government which will see over £130 million invested in the Black Country from 2016 to 2021 - which will generate an estimated additional £310 million in public and private investment. In addition to the benefits that this will bring to the wider Black County partnership, investments that will have a direct impact upon Wolverhampton include:

Wolverhampton Interchange:

The i10 success complements our plans for a fully integrated transport hub, providing an attractive and effective Wolverhampton gateway for the Black Country with improved links to Birmingham and the proposed high speed railway (HS2). Work is due to begin on the new railway station next year following the extension and refurbishment of the railway station multi-storey car park, which is expected to be completed by Christmas 2016. It forms part of a £120 million Interchange project that will also see a Metro line extension, including a new stop at the station.

Bilston Urban Village:

The regeneration of Bilston town centre including infrastructure, services and remediation work to bring major new residential and employment opportunities. The development will create over 1,000 new homes as well as retail and commercial premises and a significant amount of parkland and open space. After significant construction, it is already now home to the state of the art Bert Williams Leisure Centre.

Civic Halls and Grand Theatre:
This involves a major refurbishment and extension through the Black Country Growth Deal to meet demand and stimulate further economic development and investment in the City Centre. The Civic Halls have been around for ninety years and are an important part of our visitor economy, providing jobs and generating millions of pounds every year by staging nationally acclaimed shows.

Westside Development:
The Council has recently named its preferred Westside developer to deliver a £55 million leisure led mixed use scheme in the heart of the City. Urban & Civic plc fought off competition from other leading UK developers and will now further develop its proposal to deliver a multi-screen cinema, restaurants, bars, hotel, multi storey car park, apartments, and public realm, in two phases, over five years.

Primary Schools Expansion Programme:
The Council has approved £33.7 million of investment between 2015/16 and 2018/19 to meet predicted demand for school places in coming years. This will complement the significant investment of over £200 million via the Building Schools for the Future programme to help develop a world class educational environment for our young people.

Digital Transformation:
We are also investing in our vital business systems to ensure that we obtain the maximum leverage in appropriate digital technologies. This will help us to make sure that our business processes, activities and models are at the cutting edge of efficiency and effectiveness to support our varied service aspirations. The programme will transform the delivery of Council services and will be supported by the introduction of new technologies in the form of a Customer Engagement Platform, Master Data Management and a Business Intelligence solution.

Our Vision for the City of Wolverhampton in 2030
Looking into the horizon, what might the City of Wolverhampton look and feel like in 2030? The City is already one of the fastest changing cities in the UK and is playing a leading role in driving forward devolution to the West Midlands via the West Midlands Combined Authority. Our medium term capital investment plans to 2020/21 mark a significant step change and will take us closer to the City described in our 'New Horizons' vision for the City of Wolverhampton in 2030. In 2030 Wolverhampton will be place where people come from far and wide to work, shop, study and enjoy our vibrant nightlife but this can only be realised by effective collaboration across the City and beyond. With your support we will transform our City into a prosperous and inclusive place that celebrates its diversity and heritage and plays its part on the regional, national and international stage.

Proposed Wolverhampton Interchange Development

7. Treasury Management Strategy

The New i10 Development on Railway Drive, Wolverhampton

The Council's latest Treasury Management Strategy was approved by Full Council on 2 March 2016. This sets out the strategy for the management of the Council's investments, borrowings and daily cash balances and has four elements:

- The Treasury Management Strategy Statement sets out how the Council's treasury service supports capital investment decisions and day-to-day cash management.
- The 'prudential indicators' and 'treasury management indicators' which control and regulate the extent of the Council's financial activities.
- The annual investment strategy which sets out the Council's criteria for choosing investments and limiting its exposure to loss.
- The Minimum Revenue Provision (MRP) policy, which sets out how the Council will pay for capital assets through revenue each year.

Borrowing and Investments

The level of council borrowing is in line with capital expenditure plans. However, both its investment and borrowing activities are heavily influenced by the current climate of low interest rates.

The Council continues to follow a strategy of keeping cash balances to a minimum and avoiding external borrowing unless absolutely necessary.

In the short term, this has resulted in significant revenue budget reductions, whilst also serving to protect the Council from the risk of exposure to loss on the money markets, which remain relatively fragile.

8. Housing Budget

Housing development at Lawnside Green, Wolverhampton

The City of Wolverhampton Council owns just under 23,000 houses and day-to-day management and maintenance is carried out for the Council by its arm's-length management organisation, Wolverhampton Homes, four tenant management organisations and estate management boards. The Council also provides a number of specialist housing services.

The Council has recently established WV Living, a local housing company, to deliver up to 1,000 new homes for the private market for sale and rent. This will contribute to the core objectives of economic growth, developing a vibrant city and increasing the number of homes. There will be a positive impact on skills and employability targets. In utilising sites owned by the Council, some of which may have been challenging for private sector development, this initiative is likely to result in speedier redevelopment than if left entirely to the market. By including homes for market rent, as well as sale, and building 25 per cent of affordable homes, the City will be guaranteed a good pace of build which is not always characteristic of the market.

Housing - the 30 Year Business Plan

The Council takes a long-term view of housing, forecasting capital, management and maintenance spending requirements and available resources over the next 30 years.

The Housing Budget is expected to have sufficient resources to fund the £1.6 billion of capital works required, as well as meeting management and maintenance obligations for council housing provision over the next 30 years.

Housing Revenue

The Council has assumed that rents will rise in line with government policy over the course of the 30 year life of the business plan. The current business plan, which was approved by Council on 27 January 2016, meets the requirement to bring the Council's existing houses to the Decent Homes standard and maintain them at this standard. It also includes budget for a significant new build programme.

In the Chancellor's budget of July 2015, it was announced that all council dwelling rents would reduce by 1% each year from 1 April 2016 for the next four years to 2020. The proposed 1% reduction will be mandatory once legislation is enacted. In Wolverhampton, a 1% reduction in dwelling rents each year for the next four years compounds to an overall reduction of 12%. Over the 30 year lifetime of the business plan this equates to £622 million shortfall in income based upon previous projections.

Since the July budget announcement, Wolverhampton Homes and the Council have worked together to address this shortfall within the business plan. In addition opportunities have been considered to release additional resources to enable an acceleration of new build housing within the HRA.

The previous HRA business plan was predicated on the principle that rents will rise year on year by the Consumer Price Index (CPI) plus 1%, using the government's assumptions on future rates of inflation. After the proposed 1% reduction in rents for the next four years the proposed plan returns to the assumption that rents will rise by CPI plus 1% and a CPI rate of 2%.

Building costs within the plan were linked to the Retail Price Index (RPI) rather than the Consumer Price Index (CPI); the business plan has been re-modelled using CPI plus 0.5% as inflation for building costs.

Assumptions in properties lost through demolition and right to buy have been amended assuming that right to buy sales will tail off over the next few years and plateau at around 130 per year. After the proposals for Heath Town are implemented, there are no other demolition schemes being considered. These measures combined, which are reflected in Table 3 below, reduce projected costs within the HRA business plan by £280 million.

***Table 3: Housing Revenue Budget** (30 Year Business Plan)*

	Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
	£ thousands					
Income						
Dwelling Rents	(456,295)	(497,927)	(558,980)	(622,795)	(696,381)	(784,181)
Other Rents	(1,781)	(1,999)	(2,254)	(2,549)	(2,891)	(3,287)
Service Charges	(33,612)	(39,649)	(43,624)	(48,029)	(52,734)	(58,320)
	(491,688)	**(539,575)**	**(604,858)**	**(673,373)**	**(752,006)**	**(845,788)**
Expenditure						
Management and Maintenance (net of retained surpluses)	242,290	262,510	288,802	320,897	355,316	393,575
Depreciation and provision for redemption of debt	172,972	201,043	256,673	303,267	356,539	408,623
Net Financing Costs	76,426	76,022	59,383	49,209	40,151	43,590
	491,688	**539,575**	**604,858**	**673,373**	**752,006**	**845,788**
Balance	-	-	-	-	-	-

Further reviewing and subsequent remodeling of the 30 year housing capital budget has identified further revenue savings (see Table 4 overleaf), primarily as a result of modifications to decent homes investment plans and lower borrowing and interest costs.

Housing Capital

The Housing Capital Account includes long-term capital expenditure plans and financing arrangements for investing in the Council's housing stock. The following table shows that the Council has sufficient resources to fund its capital spending requirements over the duration of the business plan.

A significant amount of work has gone into reviewing the entire capital programme and the asset management plan and building cost model that underpins it.

***Table 4: Housing Capital Account** (30 Year Business Plan)*

	Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
	£ thousands					
Expenditure						
Capital Expenditure	199,313	173,697	196,179	305,578	373,764	380,221
Financing						
Major Repairs Reserve	(110,276)	(108,785)	(107,220)	(105,574)	(103,845)	(102,475)
Grants, Contributions and Receipts	(23,120)	(15,238)	(15,238)	(15,238)	(15,238)	(15,238)
Borrowing	(65,917)	(49,674)	(73,721)	(184,766)	(254,681)	(262,508)
	(199,313)	**(173,697)**	**(196,179)**	**(305,578)**	**(373,764)**	**(380,221)**
Balance	-	-	-	-	-	-

The first council houses to be built in Wolverhampton for thirty years at Thompson Avenue

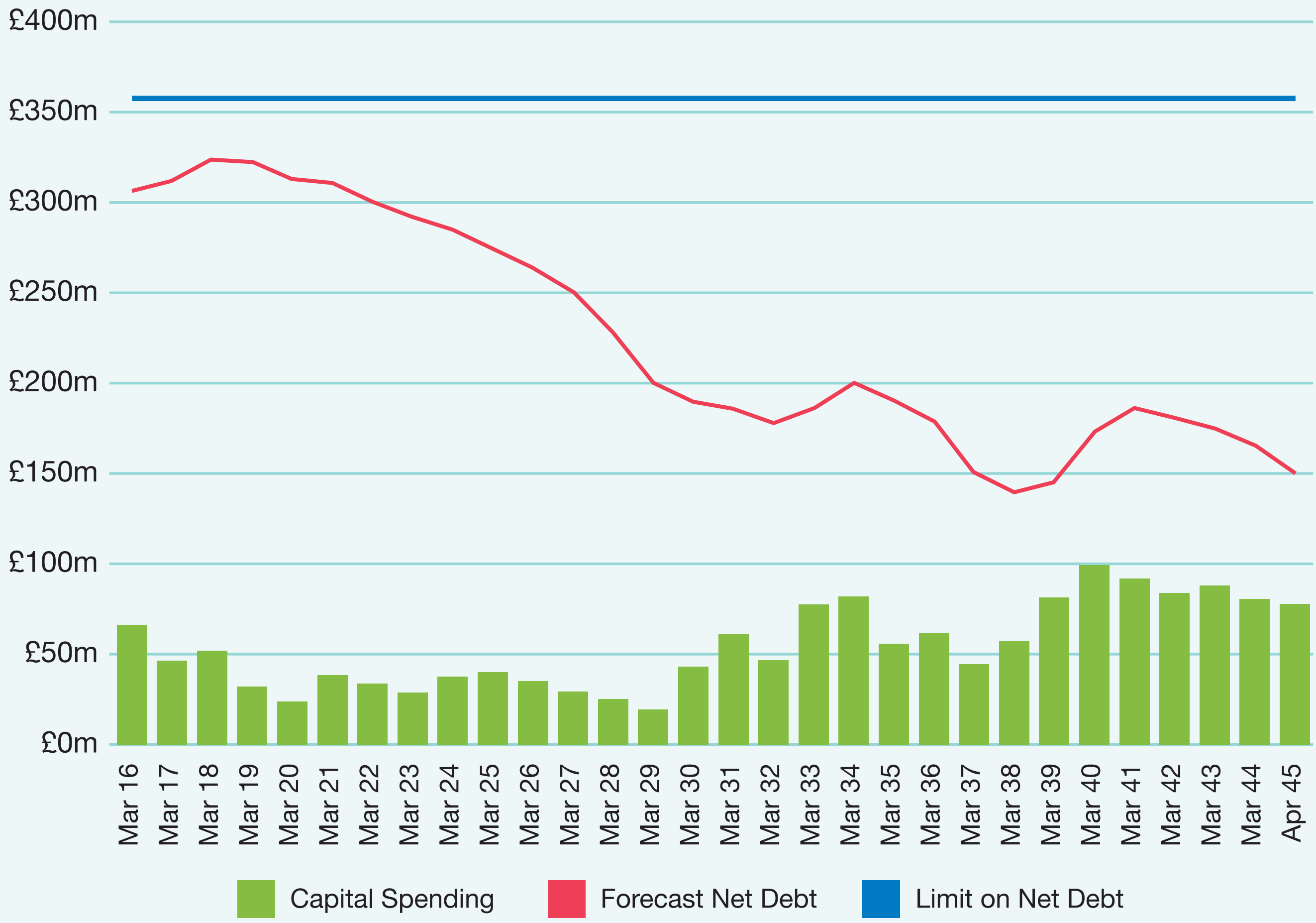
Home improvements to homes in Vicarage Road, Wolverhampton

Based upon up to date stock condition information, adjustments to when components replaced with decent homes investment will need to be replaced again have resulted in a further reduction in costs of £340 million over the 30 years of the business plan.

When this figure is adjusted for inflation over 30 years it reduces costs by an additional £80 million. It also results in less borrowing over 30 years and therefore less interest payable, reducing projected costs by a further £120 million. The overall impact of these measures equates to a reduction of £540 million over the lifetime of the business plan.

Chart 6 below shows the relationship between the Council's capital spending plans for the next thirty years and borrowing levels and reflects the Council's investment plans *(previous page)*.

Chart 6: Capital Expenditure Forecast and Debt Curve 2015/16 to 2044/45



Properties built for the Care and Support Specialised Housing Scheme at Fifth Avenue

As part of the self-financing arrangements introduced from April 2012 there is a cap placed on the level of debt that can be incurred by the Housing Revenue Account. The maximum amount for Wolverhampton is £356.8 million as shown by the blue line above. The chart graphically presents the forecast debt curve based upon the capital expenditure, including new build, included within the Council's business plan. This shows the maximum anticipated debt of £319.4 million in 2017/18 providing headroom for realisation of some of the associated risks such as changes to interest and inflation rates.

Managing risks

Due to the size and nature of activities associated with the Council's Housing Budget, there are inherent risks. The Council adopts a proactive approach to managing and mitigating these risks as far as possible. The budgets are actively managed to ensure income and expenditure plans are closely monitored and remedial action is taken where necessary.

The Housing Budget is also exposed to interest rate movements, as interest costs account for approximately one-tenth of the total revenue expenditure. The Council manages and monitors this risk on a daily basis.

A further significant risk relating to the Business Plan is the high level of capital expenditure that it assumes. Relatively small variations in estimates and assumptions could have a significant impact. The Council receives regular comprehensive updates on forecast capital expenditure requirements from Wolverhampton Homes.

The overall risk currently associated with the Housing Budget is Amber.

9. Strategy Summary

In summary, the Financial Plan and Efficiency Strategy not only reflects the Council's corporate priorities, but also plays a critical role in shaping the Council's vision, providing a framework within which decisions about future services can be made. The Financial Plan and Efficiency Strategy details strategies in place for the medium term:

- ***Revenue Budget Strategy***
  The Revenue Budget Strategy sets out the Council's General Services revenue expenditure plans and the level of available resources. The Council has set a balanced budget for 2016/17 without having to call on its general reserve. The latest version of the General Services revenue budget and Medium Term Financial Strategy, however, projects that unless the Council takes further action the annual budget deficit the will stand at £54.6 million by 2019/20.

- ***Capital Investment Strategy***
  The Capital Investment Strategy sets out the plans to invest over £200 million in the City over the next five years together with the funding to support that investment. Despite the financial challenge and constraints, the Council is committed to investing in the future.

- ***Treasury Management Strategy***
  The Treasury Management Strategy sets out how the Council's treasury service supports borrowing and capital investment decisions together with the management of day to day cash balances in order to minimise the impact on revenue budgets and protect the Council from loss.

- ***Housing 30-Year Business Plan***
  The Housing Business Plan sets out what the Council considers it will need to invest in council housing together with its annual management and maintenance plans over the next 30 years, and how it plans to pay for these improvement programmes.

The Financial Plan provides a financial interpretation of the council's vision and priorities for the city

10. Technical Terms Explained

Though we have tried to make the language in this document as clear as possible, there are occasions where we have had to use technical terms. We have explained these in the body of the text where we were able to, but we hope you will find this list useful.

Where a word or phrase appears in blue italics you will find a technical definition below.

Arm's Length Management Organisation
Often called an ALMO, this is an organisation which is controlled by a parent body such as the Council, but which is in charge of its own day-to-day operations. Wolverhampton Homes is a good example.

Balances and Reserves
An amount of money that the Council has chosen to set aside in order to meet future spending needs.

Budget
A budget is a plan of approved spending during a financial year.

Business Rates
Businesses across the country have to pay business rates. The Government decides how much they should pay and local authorities collect the money. Councils keep approximately 50% of the business rates' growth raised in their own area with the balance being paid over to Government.

Cabinet
The Cabinet is chaired by the Leader of the Council and comprises nine other Councillors from the political party in power. Strategic decisions about the running of the council and its services are taken by the Cabinet.

Capital Expenditure
Expenditure on the purchase of property, plant and equipment, or expenditure which adds to, and not merely maintains, the value of an existing asset.

Capital Grant
A contribution, usually by Central Government, towards the cost of Capital Expenditure.

Capital Programme
The plan of approved capital expenditure.

Council Tax
A tax paid by residents to the Council, based on the value of their property, to be spent on local services.

Council Tax Reduction
Council Tax Reduction is help to pay Council Tax for both tenants and owner occupiers on a low income.

Dedicated School Grant
A specific grant from Central Government which is mainly delegated to schools to provide educational services.

Deficit
This occurs when spending exceeds income.

Equality Analysis
An equality analysis is a way of finding out whether a policy, service or strategy will have an adverse impact on any particular group or sector of the community.

Financial Year
As with all councils' this runs from 1 April to 31 March for the City of Wolverhampton.

Full Council
All 60 elected Councillors in Wolverhampton meet regularly (every 6 weeks) as the Full Council, to make decisions on major issues affecting the Council and theCity.

General Services Budget
The cost of all services of the Council except for Council Housing. The net cost of General Services is met by Council Tax, Government Grants and Business Rates.

Government Grants
Assistance by Government and inter-governmental agencies and similar bodies, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the Council.

Growth Deals
Growth Deals provide central government funds to Local Enterprise Partnerships (LEPs), which are partnerships between local authorities and businesses, for projects that benefit the local area and economy.

Housing Benefit
Housing Benefit is help for tenants with all or part of their rent.

Housing Budget
A ring-fenced account detailing the day to day income and expenditure arising from the provision of council housing.

Housing Capital Account
A ring-fenced account detailing the Council's investment which adds value to council housing and the associated capital funding streams.

Minimum Revenue Provision (MRP)
A minimum amount set by law, which the Council must charge to the General Services revenue account, to set aside to repay borrowing.

Prudential Indicators
Financial and statistical indicators that the Council uses to identify whether capital investment and debt/treasury management plans are prudent, affordable and sustainable.

Revenue Expenditure
Expenditure on the day-to-day running costs of services, for example employees, premises.

Ring-fenced Budget/Grant
Certain budgets or grants must be maintained separately outside of the General Services account.

Stakeholder
A person, group or organisation that has an interest or concern in the Council or the community it serves.

Treasury Management
Management of the Council's investments, borrowings and daily cash balances.

The bridge connecting the railway and bus stations (an integral part of the future Metro and Train Station development)

Reports referred to in this plan can be found at
http://wolverhampton.moderngov.co.uk

Capital budget outturn 2015/16
including quarter one capital budget monitoring 2016/17
and financial strategy

Treasury Management Strategy 2016/17

Budget 2016/17 and Medium Term Financial Strategy
2016/17 to 2019/20

Council Tax Formal Resolutions

Housing Revenue Account business plan
(including 2015/16 budget, rents and service charges)

You can get this information in large print, braille,
audio or in another language by calling 01902 551155

wolverhampton.gov.uk 01902 551155

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