

Cabinet Meeting

24 February 2016

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|--|---|---|
| Report title | 2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20 | |
| Decision designation | RED | |
| Cabinet member with lead responsibility | Councillor Andrew Johnson Resources | |
| Key decision | Yes | |
| In forward plan | Yes | |
| Wards affected | All | |
| Accountable director | Keith Ireland, Managing Director | |
| Originating service | Strategic Finance | |
| Accountable employee(s) | Mark Taylor Tel Email | Director of Finance 01902 554410 mark.taylor@wolverhampton.gov.uk |
| Report to be/has been considered by | Strategic Executive Board Council Confident Capable Council Scrutiny Panel | 15 February 2016 2 March 2016 20 April 2016 |

Recommendations for action or decision:

That Cabinet recommends that Council approves:

1. The net budget requirement for 2016/17 of £217.4 million for General Fund services (paragraph 12.3).
2. The Medium Term Financial Strategy 2016/17 to 2019/20 as detailed in Table 6 and the budget preparation parameters underpinning the MTFs as detailed in Appendix B.
3. A Council Tax for Council services in 2016/17 of £1,424.29 for a Band D property, being an increase of 3.99% on 2015/16 levels (paragraph 7.3), which incorporates the newly permitted 2% increase in relation to Adult Social Care (paragraph 7.2).

4. In principle the acceptance of the Government's offer of a four year settlement by 14 October 2016 (paragraph 3.3), noting that the Financial Plan and Efficiency Strategy will be reported to Cabinet and Council ahead of final acceptance of the offer.
5. The Efficiency Plan Relating to Capital Receipts Flexibility as detailed in Appendix C (paragraph 3.4).
6. That work starts on developing budget reductions for 2017/18 and progress be reported to Cabinet in July 2016 (paragraph 12.4).

That Cabinet is recommended to approve:

1. The changes to the 2016/17 draft budget for General Fund services, since the draft budget was last reported to Cabinet on 21 October 2015, as detailed in sections 3 to 12 and summarised in Appendix A.
2. The delegation of authority to the Director of Finance (Section 151 Officer) to agree the composite rate for employer's contributions with West Midlands Pension Fund.

Recommendations to note:

That Cabinet notes:

1. That the budget for 2016/17 is in balance without the use of general reserves (paragraph 12.2).
2. That, in the opinion of the Director of Finance (Section 151 Officer), the 2016/17 budget estimates are robust (paragraph 12.3).
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 13.4).
4. That a further £54.6 million needs to be identified over the period 2017/18 to 2019/20 in order to address the projected budget deficit (paragraph 12.2).
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).
6. That, having identified significant budget reductions over the last six financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the council has ever faced (paragraph 12.6).

7. That the overall level of risk associated with the 2016/17 budget and Medium Term Financial Strategy 2016/17 – 2019/20 is assessed as Red (paragraph 15.1).
8. That Councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions (paragraph 18.0).

1.0 Purpose

- 1.1 This is the final report of the financial year on the 2016/17 Budget and the Medium Term Financial Strategy for the period to 2019/20. The report provides Cabinet with a budget for recommendation to Full Council.

2.0 Background and Summary

- 2.1 The Budget 2015/16 and Medium Term Financial Strategy (MTFS) 2015/16 to 2018/19 was presented to Full Council for approval on 4 March 2015. After taking into account budget reduction proposals approved during the 2015/16 budget setting process, equating to £26.9 million over the four year period to 2018/19, it was projected that the Council would be faced with finding further estimated budget reductions totalling £46.3 million by 2018/19.
- 2.2 A strategy to address the projected budget deficit over the medium term was approved by Full Council in March 2015, with an initial focus on identifying £20.0 million of additional budget reductions for 2016/17 during the first few months of the current financial year, in order to demonstrate that a balanced budget can be achieved in 2016/17. Whilst the projected budget deficit for 2016/17 stood at £14.8 million, a budget reduction target in excess of the projected budget deficit was deemed necessary due to the increased uncertainty surrounding future government funding. It was deemed that in the unlikely event that government funding is in line with, or better than, current projections, this strategy would give the Council some choice over the implementation of budget reduction proposals.
- 2.3 It is important to note that a £2.0 million Adult Services budget reduction target was incorporated into the existing MTFS within 2016/17, taking account of this the total budget reduction target for 2016/17 stood at £22.0 million in July 2015.
- 2.4 A review of the anticipated assumptions and projections built into the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19 was undertaken following the Government Summer Budget 2015 announcement which indicated that there would be some additional cost pressures and potential further cuts to grant, in addition to reviewing existing assumptions concerning the successful delivery of significant levels of challenging budget reductions. As a result on 21 October 2015, Cabinet approved that the budget reduction target for 2016/17 be revised upwards from £22.0 million to £24.0 million. It is important to note, that this new budget reduction target for 2016/17 still included a prudent uplift of £5.2 million in anticipation of the forthcoming Spending Review.
- 2.5 On 21 October 2015 Cabinet approved that Reductions, Redesign and Income Generation proposals totalling £14.1 million and Financial Transactions and Base Budget Revisions totalling £7.1 million proceed to the formal consultation and scrutiny stages of the budget process. This left a shortfall against the revised budget reduction target of £2.8 million.

- 2.6 On 17 December 2015 the Government announced the provisional local government finance settlement for 2016/17. An analysis of the impact of the announcement on the assumptions included in the Medium Term Financial Strategy was reported to Cabinet on 13 January 2016. On 8 February 2016 the Secretary of State announced the final local government finance settlement.
- 2.7 On 3 February 2016 Cabinet received a report on the outcome of the consultation process along with the outcome of the scrutiny process.
- 2.8 This report provides an update on the outcome of the final local government finance settlement and also responds to the outcome of the budget scrutiny and consultation processes.

3.0 Final Local Government Finance Settlement

- 3.1 On 8 February 2016, the Secretary of State announced the final local government finance settlement, referred to herein as the final settlement, which provided details of the core government grants including Revenue Support Grant, Top Up Grant and New Homes Bonus. For Wolverhampton, the final announcements were broadly in line with the provisional settlement announced in December 2015.
- 3.2 In addition to providing the Council with final settlement figures for 2016/17, the Government have also provided each authority with indicative core government grant allocations for 2017/18 to 2019/20, to cover the Parliamentary period. In order to secure the four year settlement it is necessary to publish an efficiency strategy which must be approved by Full Council. As part of the final settlement announcements, the Secretary of State identified that councils would have until 14 October 2016 to consider and respond to the offer of a four year settlement. The Department for Communities and Local Government (DCLG) have indicated that they will be writing to each council shortly setting out the details of the multi-year settlement offer and the process for acceptance.
- 3.3 The provision of four year settlement information is welcome and would, to some extent, enable greater certainty in medium term financial planning. However, due to the outstanding grant funding information for future years and the potential transfer of responsibilities that the Government have alluded to, the impact of the settlement over the medium term remains uncertain at this stage. It is proposed that Cabinet recommend that Council approve in principle the acceptance of the Government's offer of a four year settlement by 14 October 2016. Following receipt of the guidance a Financial Plan and Efficiency Strategy will be reported to Cabinet and Council.
- 3.4 In the provisional settlement announcement, the Government also stated that councils will be able to use new capital receipts from April 2016 to March 2019 to pay for revenue set up costs of transformational projects that are designed to make revenue budget reductions. It is anticipated that this flexibility will form part of the wider efficiency strategy. Final guidance has not yet been issued by the Government regarding this new capital receipts flexibility, however DCLG have indicated that the final guidance will not differ significantly from the draft guidance. In accordance with the draft guidance, an

initial list of qualifying expenditure and corresponding efficiencies anticipated to be delivered are detailed at Appendix C. Council are recommended to approve the use of new capital receipts from April 2016 to March 2019 to fund revenue transformational projects as detailed as at Appendix C. The implications of the capital receipt plan are fully reflected in the 'Capital Programme 2015/16 to 2019/20 Quarter Three Review and 2016/17 to 2020/21 Budget Strategy' and 'Treasury Management Strategy 2016/17' reports which are also presented to Cabinet on this agenda. Regular updates on the capital receipt flexibility will be provided to Cabinet.

4.0 Medium Term Financial Strategy – Key Assumptions

- 4.1 Due to the financial challenges facing the Council, it continues to be increasingly important to consider next year's budget as part of a Medium Term Financial Strategy. As detailed in section 3 above, the final settlement provided the Council with indicative core grant allocations up to 2019/20, which provides an element of certainty; therefore the Medium Term Financial Strategy has now been extended to cover the same four year period to 2019/20. The major budget assumptions used in the preparation of the Medium Term Financial Strategy are set out in Appendix B. Specific assumptions are set out in more detail below.
- 4.2 It is particularly challenging to project key assumptions over the medium term period, however, they have been adjusted based upon the information available at present and professional judgement. It is important to note that, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council.

5.0 Pay Related Pressures

- 5.1 Detailed work has been undertaken to assess the likely impact of Auto Enrolment, increases in employer's National Insurance contributions, the National Living Wage and proposed levels of Pay Award. In order to address the increase in National Living Wage it is anticipated that future pay award agreements will include increases of above 1% for the lower pay points and therefore a level of contingency has been built into the budget over the medium term. 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

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Pay Award, Employers Pension and National Insurance | 10,343 | 12,006 | 1,092 | 3,400 |
| Annual Increments | 1,833 | 1,250 | 1,000 | 750 |
| | 12,176 | 13,256 | 2,092 | 4,150 |

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

6.0 Budget Pressures and Developments

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

Table 2 – Budget Pressures and Developments

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|---------|---------|---------|---------|
| | £000 | £000 | £000 | £000 |
| Inflationary Pressures | 3,149 | 4,265 | 4,069 | 4,000 |
| Demographic and Demand Pressures | 1,907 | 1,170 | 2,170 | 2,000 |
| Developments | 1,623 | 600 | - | - |
| | 6,679 | 6,035 | 6,239 | 6,000 |

6.2 Inflationary pressures include contract increases, utilities and the impact of the increases in the National Living Wage in relation to external contracts. As approved by Cabinet on 21 October 2015, £1.0 million of the Provision for Future Inflationary Pressures will be used to offset the impact of inflation on the General Fund; the figures above reflect this adjustment.

6.3 As previously, Demographic and Demand Pressures mainly relate to Social Care provision.

6.4 The budget has been increased to reflect development pressures in relation to the new Apprenticeship Levy. The local government settlement includes a levy of 0.5% of the pay bill to contribute to the training of apprentices from 2017/18 onwards. It is estimated that this will be approximately £600,000 for the Council. Work is being undertaken to establish the extent to which this cost can be mitigated by the securing of grant funding, back from the apprenticeship levy, for the training related cost of apprentices.

6.5 In addition provision has been made for an anticipated levy from the Combined Authority totalling £500,000 from 2016/17 onwards.

7.0 Council Tax

7.1 The Council Tax Base and NDR (Business Rates) Net Rate Yield 2016/17 report was presented to Cabinet on 13 January 2016. Cabinet approved that the Council Tax Base for 2016/17 is to be set at 60,405.94 Band D equivalents.

7.2 In the Autumn Spending Review 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. In accordance with Cabinet approval the Director of Finance notified the Secretary of State that the council intends to take up the 2% option to increase Council Tax to support Social Care. This report recommends that Cabinet approve the 2% adult social care precept on council tax for 2016/17.

- 7.3 Taking account of the above this report recommends a total increase in Council Tax of 3.99%, the maximum permitted without triggering a referendum.
- 7.4 Table 3 details the resulting impact on the level of the Council element of Council Tax for a Band D property in 2016/17. Details of the impact on all bands can be found in Appendix D.

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

| Band D | £ |
|--|----------|
| 2015/16 Council Element of the Council Tax | 1,369.64 |
| 1.99% Increase | 27.26 |
| 2% Adult Social Care Precept | 27.39 |
| | 1,424.29 |

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

8.0 Business Rates

- 8.1 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Department for Communities and Local Government (DCLG) by the deadline of 31 January 2016. 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 2016/17 at £77.2 million of which the council will be expected to retain £37.8 million.
- 8.2 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 £2.0 million is projected for 2016/17 however; final confirmation from Government has not been received at the time of writing.

9.0 Collection Fund Deficit

- 9.1 On 13 January 2016 Cabinet received a report detailing the estimated outturn on the Collection Fund for 2015/16 which consisted of a projected cumulative surplus of £2.6 million on Council Tax and a projected cumulative deficit of £8.3 million on Business Rates.
- 9.2 Following revisions, arising as a result of further data becoming available and analysis being undertaken, the Cabinet Member for Resources in consultation with the Director of Finance approved, via an Individual Executive Decision Notice, the final total Collection Fund Estimated Outturn for 2015/16 at an accumulated deficit of £6.7 million, consisting of a £2.6 million projected surplus on Council Tax and a £9.3 million projected deficit on Business Rates. 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 localisation.
- 9.3 The Council will retain £2.2 million of the total estimated 2015/16 Collection Fund accumulated deficit as detailed in Table 4.

Table 4 – Retained Element of Collection Fund Deficit

| Element of Collection Fund | (Surplus) / Deficit £000 | Retained % | Retained (Surplus) / Deficit £000 |
|-----------------------------------|-------------------------------------|-----------------------|--|
| Council Tax | (2,571) | 89.5% | (2,300) |
| Business Rates | 9,258 | 49.0% | 4,536 |
| Total | 6,687 | | 2,236 |

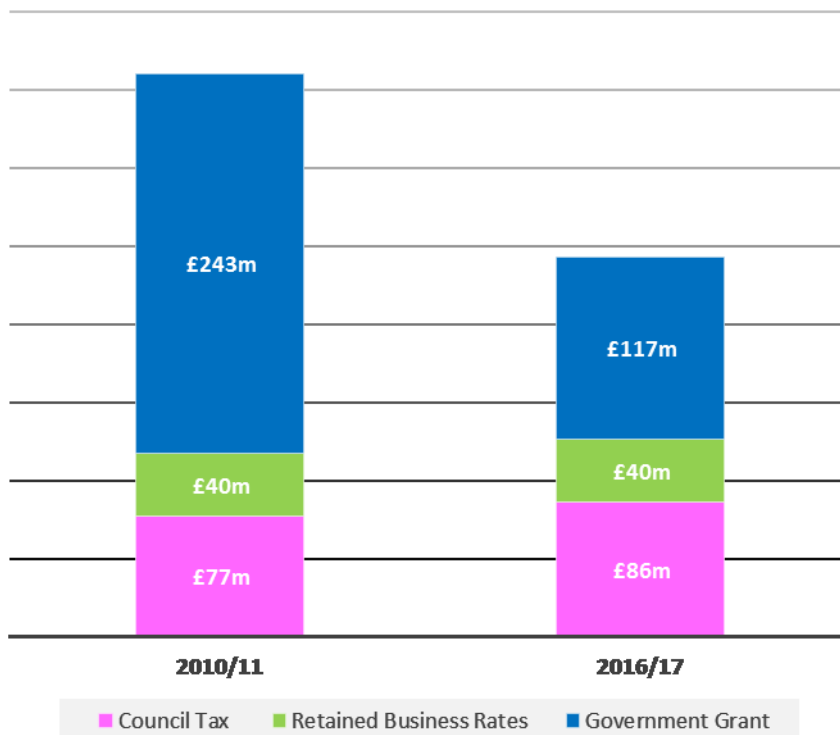
- 9.4 During the 2014/15 outturn process, a Business Rates Equalisation reserve was established to support the Council in relation to the deficit on the Collection Fund, primarily arising as a result of Business Rates appeals, £1.6 million of this Equalisation Reserve will be utilised in 2016/17 to reduce the impact of the deficit on the General Fund Budget.

10.0 Grants

- 10.1 On 13 January 2016 Cabinet were informed that the provisional settlement included indicative allocations for Revenue Support Grant, Top Up Grant, New Homes Bonus and Education Services Grant. The final settlement on 8 February 2016 confirmed these allocations for 2016/17 and indicative figures for the period to 2019/20.
- 10.2 The Government are undertaking consultation on proposed changes to the allocation of New Homes Bonus, specifically to reduce payments from 6 years to 4. The MTFS assumptions reflect this proposed change.

- 10.3 The Council was notified of the 2016/17 Public Health grant allocation and indicative allocation for 2017/18 on 11 February 2016. The grant allocation was broadly in line with current projections for 2016/17. The Department of Health have indicated that there will be a cash reduction of 9.6% over the period to 2019/20; based on the indicative allocation for 2017/18, further reductions of approximately 2.65% per annum would be necessary in 2018/19 and 2019/20.
- 10.4 The detail of these allocations and other specific grants can be found by following this link: <http://www.wolverhampton.gov.uk/financialstrategy>
- 10.5 At the time of writing the Council is still waiting for confirmation of Council Tax Admin Support Grant.
- 10.6 The following chart demonstrates the level of reduction in grant funding since 2010/11. It can be seen that there has been a reduction of over 50% in Government Grant over this period.

Analysis of Change in Funding at 2016/17 Prices (£m)



11.0 Budget reduction proposals

- 11.1 On 21 October 2015, Cabinet approved that Budget Reduction, Redesign and Income Generation proposals, totalling £14.1 million in 2016/17, should proceed to the formal consultation and scrutiny stages of the budget process and Financial Transactions and Base Budget Revisions totalling £7.1 million in 2016/17 be incorporated into the 2016/17 draft budget. Further details of individual proposals are available on the Council's website using the following link <http://www.wolverhampton.gov.uk/financialstrategy>
- 11.2 The results of budget consultation were reported to Cabinet on 3 February 2016. This report provides the final response of Cabinet to the budget consultation.
- 11.3 During November and the start of December 2015, each Scrutiny Panel reviewed and scrutinised the relevant budget reduction proposals. All of these views and observations were then reported to Scrutiny Board on 15 December 2015 and Cabinet on 3 February 2016. This report provides the final response of Cabinet to the budget scrutiny.
- 11.4 As a result of budget consultation and scrutiny processes a number of revisions are proposed.
- 11.5 The consultation process concluded that a significant number of respondents were not in favour of the reductions proposed in relation to Grounds Maintenance and also the reduction in school crossing patrols. Therefore it is proposed that these budget reductions are removed from the MTFS.
- 11.6 The online budget consultation indicated that 64% of respondents were not in favour of extending charging for the use of Public Conveniences. As a result, this report recommends that this income generation proposal is delayed until 2017/18 to allow for further detailed review of service provision before any changes to charges are implemented.
- 11.7 It is also proposed to delay the budget reduction proposals in relation to West Park Conservatory and Bilston Craft Gallery. In each case this will allow further time to establish a commercial approach.
- 11.8 The proposal to restructure the library service has been delayed until 2017/18 to allow for modelling of alternative methods of service delivery.
- 11.9 The Children's Services Redesign budget reduction has been rephased to reflect current information arising from the implementation plan.
- 11.10 Table 5 provides a summary of the financial impact of the proposed revisions.

Table 5 – Revisions to budget reduction proposals

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | Total £000 |
|---|-----------------|-----------------|-----------------|-----------------|---------------|
| Total of budget reduction proposals | (14,110) | 4,126 | 458 | - | (9,526) |
| Revisions - Deletion of budget reduction proposal | | | | | |
| Grounds Maintenance Reductions and Efficiencies in Service | 11 | 11 | - | - | 22 |
| Review School Crossing Patrols | 10 | - | - | - | 10 |
| Rephrasing of proposals | | | | | |
| West Park Conservatory Alternative Service Provision | 40 | (40) | - | - | - |
| Review Public Conveniences Provision | 42 | (34) | (8) | - | - |
| Bilston Craft Gallery Review Current Service Provision including delivery of exhibitions and craft play | 20 | (20) | - | - | - |
| Restructuring of the Library Service | 500 | (500) | - | - | - |
| Children's Services Redesign | 750 | (750) | - | - | - |
| Revised total of budget reductions | (12,737) | 2,793 | 450 | - | (9,494) |

11.11 Further revisions are also proposed to budget reductions previously approved. In addition, there are a number of new budget reduction proposals that have been identified during the 2016/17 budget setting process. Further details are provided in Appendix E.

12.0 Updated Budget and Medium Term Financial Strategy

- 12.1 Table 6 details projections for the period to 2019/20; incorporating extensive budget preparation work that has been on-going in recent months for the 2016/17 budget, in addition to those adjustments arising as a result of changes in assumptions, as detailed in this report.
- 12.2 The Council is now faced with finding further budget reductions estimated at £54.6 million over the next three years. The Council's proposed budget for 2016/17 does not require the use of any general reserves in order to balance the budget.
- 12.3 The net budget requirement for 2016/17 for General Fund Services is £217.4 million. In the opinion of the Director of Finance (Section 151 Officer) the 2016/17 budget estimates are robust.
- 12.4 However, work must start immediately to identify additional budget reductions to address the projected £22.2 million budget deficit for 2017/18. It is proposed that an update on progress will be reported to Cabinet in July 2016.
- 12.5 The July 2016 report will also include a high level strategy for tackling the estimated additional budget reductions totalling £32.4 million required between 2018/19 and 2019/20, taking the total additional budget reductions to be identified to £54.6 million, in order to address the projected budget deficit over the medium term to 2019/20.

- 12.6 It is important to note that the updated projected budget deficit assumes the achievement of budget reduction proposals amounting to £37.4 million over the four year period to 2019/20. Having identified budget reductions in excess of £175.0 million over the last six financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.
- 12.7 Appendix A analyses the changes that have taken place since 25 February 2015, whilst the Council's proposed budget for 2016/17 and the medium term forecast is shown at Table 6. Further supporting information will be available at <http://www.wolverhampton.gov.uk/financialstrategy>
- 12.8 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 2017/18 budget consultation process.

Table 6 - Medium Term Financial Strategy 2016/17 to 2019/20

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
|--|------------------|------------------|------------------|------------------|
| Previous Years Net Budget Brought Forward | 224,875 | 217,350 | 234,461 | 251,125 |
| Increasing/ (Decreasing) Cost Pressures | | | | |
| - Pay Related Pressures | 12,176 | 13,256 | 2,092 | 4,150 |
| - Treasury Management | (632) | 2,455 | 14,309 | 164 |
| - Budget Growth | 6,679 | 6,035 | 6,239 | 6,000 |
| - Full year effect of prior years budget reductions | (6,410) | (8,669) | (7,878) | (283) |
| - Financial Transactions and Base Budget Adjustments | (7,068) | 1,349 | 1,204 | - |
| - Budget Reduction Proposals - 2016/17 budget process | (12,887) | 2,793 | 450 | - |
| - Net Impact of change in specific grants | 617 | (108) | 248 | - |
| | (7,525) | 17,111 | 16,664 | 10,031 |
| | | | | |
| Net Budget (Before Use of Resources) | 217,350 | 234,461 | 251,125 | 261,156 |
| Projected Corporate Resources | | | | |
| Council Tax | (84,381) | (86,490) | (88,653) | (90,869) |
| Social Care Precept | (1,655) | (3,351) | (5,089) | (6,871) |
| Revenue Support Grant | (50,283) | (38,392) | (30,298) | (22,124) |
| Enterprise Zone Business Rates | (1,532) | (2,394) | (2,800) | (2,800) |
| Collection Fund (Surplus)/Deficit | 2,237 | - | - | - |
| Use of Business rates Equalisation Reserve | (1,592) | - | - | - |
| Top Up Grant | (36,198) | (36,910) | (38,000) | (39,213) |
| Localised Business Rates | (37,805) | (38,561) | (39,332) | (40,119) |
| New Homes Bonus | (3,957) | (4,154) | (2,610) | (2,504) |
| New Homes Bonus Adjustment Grant | (167) | - | - | - |
| Business Rates Section 31 Grant | (2,017) | (2,017) | (2,017) | (2,017) |
| | (217,350) | (212,269) | (208,799) | (206,518) |
| | | | | |
| Projected Annual Change in Budget Deficit/(Surplus) | - | 22,192 | 20,135 | 12,313 |
| | | | | |
| Projected Cumulative Budget Deficit | - | 22,192 | 42,326 | 54,639 |

13.0 General Fund Reserves

13.1 General Fund Balances

13.2 The Reserves Policy requires the Council to maintain the minimum level of £10 million. As detailed in paragraph 12.2 the Council is able to set a balanced budget for 2016/17 without the use of General Fund Reserves. In order to maintain the required level of reserves it is necessary to deliver the budget reductions target of £54.6 million of the period to 2019/20 as detailed in Table 6.

13.3 Specific Reserves

13.4 Specific reserves represent monies set aside by the Council to fund future expenditure plans. 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.

14.0 Redundancy Update

14.1 The Council continues to make progress with the voluntary redundancy (VR) exercise, having sought volunteers for redundancy/early retirement since late 2013. It is still anticipated that reductions of up to 2,000 full time equivalent staff will be required over the medium term period to 2018/19. The Council continues to work towards this, with over 1,200 people having received redundancy since May 2013.

14.2 Based upon the number of approved redundancies to date, in addition to the projected reduction in full time equivalent staff arising from budget reduction proposals identified during the 2014/15, 2015/16 and 2016/17 budget setting processes, it is anticipated that redundancy costs are likely to be in the region of £5 million in 2016/17, 2017/18 and 2018/19. It is worth highlighting that the redundancy costs are an estimate, and are subject to change dependent upon the number and nature of applications. The costs of redundancies will be funded by capital receipts through the new flexibilities outlined in paragraph 3.4.

14.3 Whilst it is the Council's policy to avoid making compulsory redundancies wherever it can, it is unrealistic to assume that these can be avoided altogether. Given the need to identify further budget reductions totalling £54.6 million over the medium term period to 2019/20, it is likely that there will be further significant redundancy costs to fund in future years.

15.0 Budget Risk Management

15.1 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 2016/17 budget and Medium Term Financial Strategy 2016/17 – 2019/20 is assessed as Red.

Table 7 – General Fund Budget Risks 2016/17 – 2019/20

| 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. | Amber |
| Budget Management | Risks that might materialise as a result of 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. | Red |
| Income and Funding | Risks that might materialise as a result of income being below budgeted levels, claw back, reduction to government grant or increased levels of bad debts. The risk of successful appeals against business rates. | Red |
| Service Demands | Risks that might materialise as a result of demands for services outstretching the available resources. | Amber |
| Third Parties | Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market. | Amber |
| Government Policy | Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules and, in particular, from the Care Bill. | Red |

16.0 Financial Implications

16.1 The financial implications are discussed in the body of the report.

[CN/15022016/Z]

17.0 Legal Implications

- 17.1 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.
- 17.2 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.
- 17.3 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.
- 17.4 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).
- 17.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '**...make a report ... if it appears to him that the Authority, a committee or officer of the Authority, or a joint committee on which the Authority is represented**':
- (a) has made or is about to make a decision which involves or would involve the Authority incurring expenditure which is unlawful,
 - (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Authority, or
 - (c) is about to enter an item of account the entry of which is unlawful.
- 17.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to him that the expenditure of the Authority incurred (including expenditure it

proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

- 17.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2016/17.

[KO/16022016/S]

18.0 Equalities implications

- 18.1 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, including the overall impact of job losses. This can be found on the Council's website via the following link:

<http://www.wolverhampton.gov.uk/financialstrategy>

- 18.2 Budget reduction proposals will only be implemented on completion of a full equalities analysis.

19.0 Human resources implications

- 19.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form has been issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce the workforce by up to 1,000 jobs across the Council in the period up to 31 March 2016 through both voluntary redundancy and budget reduction targets which will result in compulsory redundancies. Further redundancies will be required in order to achieve the proposed budget reductions. A further HR1 will be issued, identifying the intention to reduce the workforce by up to a further 1,000 jobs in the period up to 31 March 2017.
- 19.2 Reductions in employee numbers will be achieved in line with the Council's HR policies. Compulsory redundancies will be mitigated as far as is possible through seeking voluntary redundancies in the first instance, and through access to redeployment. Given the volume and range of budget reductions being proposed, there will be reductions in services and employee numbers which will require fair and due process to be followed regarding consultation, selection and implementation of any compulsory redundancies. The accelerated timetable for achieving budget reductions in the light of the financial settlement is likely to require the Council, as an employer, to utilise the statutory 45 day and 30 day consultation periods for some service reductions, rather than the best practice position of allowing, where possible, 90 days.
- 19.3 The Council will ensure that appropriate support is made available to employees who are at risk of and selected for redundancy, and will work with partner and external agencies to provide support. 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.

- 19.4 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.

20.0 Schedule of Background Papers

Scrutiny Board Comments – 2016/17 Draft Budget, report to Cabinet, 3 February 2016

Budget 2016/17 – Outcome of Consultation, report to Cabinet, 3 February 2016

Final Business Rates Yield 2016/17 and Collection Fund Estimated Outturn 2015/16, Individual Executive Decision Notice, 28 January 2016

2016/17 Budget and Medium Term Financial Strategy 2016/17 to 2018/19 – Provisional local Government Finance Settlement Update, report to Cabinet, 13 January 2016

Council Taxbase and Business Rates (NDR) net rate yield 2016/17, report to Cabinet, 13 January 2016

Collection Fund Estimated Outturn 2015/16, report to Cabinet, 13 January 2016

Draft Budget 2016/17, report to Cabinet, 21 October 2015.

Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19, report to Cabinet, 22 July 2015.

Revenue Outturn 2014/15, report to Cabinet, 22 July 2015.

Reserves, Provisions and Balances, report to Cabinet, 22 July 2015.

Budget 2015/16 and Medium Term Financial Strategy 2015/16 – 2018/19, report to Full Council, 4 March 2015.

APPENDIX A

Medium Term Financial Strategy: Analysis of Changes since 25 February 2015

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--|-----------------|---------------|---------------|---------------|
| | £000 | £000 | £000 | £000 |
| Projected Budget Challenge - 25 February 2015 | 14,800 | 29,813 | 46,284 | 46,284 |
| Changes since 25 February 2015 | | | | |
| <i>Changes to growth projections:</i> | | | | |
| Pay related pressures | 1,172 | (350) | (1,250) | 4,150 |
| Inflationary | 533 | 1,146 | 1,146 | 4,000 |
| Treasury | (2,898) | 1,737 | 2,801 | 164 |
| Demographic pressures | (1,000) | (1,000) | - | 2,000 |
| Budget Developments | 317 | 600 | - | - |
| Changes to budget reduction projections | (11,242) | 4,836 | 3,722 | (283) |
| Changes to Specific Grants | 360 | (360) | - | - |
| Changes to Corporate Resources projections | (2,042) | 570 | (2,756) | 2,282 |
| Total Changes since 21 October 2015 | (14,800) | 7,179 | 3,663 | 12,313 |
| Add: Cumulative Budget Adjustments | - | (14,800) | (7,621) | (3,958) |
| Projected Budget Challenge 24 February 2016 | - | 22,192 | 42,326 | 54,639 |

Budget Preparation Parameters

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

| | 2016/17 Forecast Budget | 2017/18 Forecast Budget | 2018/19 Forecast Budget | 2019/20 Forecast Budget |
|---|--|--|--|--|
| Council Tax Annual Increase (Council element) | 1.99% | 1.99% | 1.99% | 1.99% |
| Growth in Council Tax Base | 0.5% | 0.5% | 0.5% | 0.5% |
| Adult Social Care Precept (Council element) | 2.0% | 2.0% | 2.0% | 2.0% |
| Pay Awards * | 1.0% | 1.0% | 1.0% | 2.0% |
| Price Inflation (excl. Gas, Electricity and NNDR) | 0.0% | 0.0% | 0.0% | 0.0% |
| Price Inflation (Gas) | 0.0% | 6.1% | 5.8% | 5.8% |
| Price Inflation (Electricity) | 2.0% | 2.5% | 2.5% | 2.5% |
| Price Inflation (NNDR) | 1.0% | 2.0% | 2.0% | 2.0% |
| Borrowing Interest Rate (PWLB 25 year rate) | 3.7% | 4.0% | 4.1% | 4.1% |
| Return on Investments | 0.5% | 0.5% | 0.5% | 0.5% |
| NNDR Income Annual Increase | 0.8% | 2.0% | 2.0% | 2.0% |
| Growth in NNDR Tax Base | 0.0% | 0.0% | 0.0% | 0.0% |
| Increase/(Decrease) in Top-Up Grant | 0.8% | 2.0% | 3.0% | 3.2% |
| Increase/(Decrease) in Revenue Support Grant | (20.5)% | (23.6)% | (21.1)% | (27.0)% |

* As detailed in paragraph 5.1, in order to address the increase in National Living Wage it is anticipated that future pay award agreements will include increases of above 1% for the lower pay points and therefore a level of contingency has been built into the budget over the medium term.

Efficiency Strategy – Capital Receipt Flexibility

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 |
|---|-----------------|-----------------|-----------------|
| Qualifying Transformational Projects | | | |
| Project – Estimated Redundancy and Early Retirement Costs associated with service reconfiguration, restructuring and rationalisation. Budget Reductions/Efficiencies – in accordance with our approved policy the payback on these costs is generally no greater than 18 months. | 5,000 | 5,000 | 5,000 |
| Project – Investment in increased numbers of Children’s Social Workers to reduce caseload in order to provide capacity for early intervention work. Budget Reductions/Efficiencies – contributing towards the overall Children’s Service Transformation annual budget reduction target of £6.35 million. | up to 380 | - | - |
| Project – Professional costs associated with the debt refinancing of the BSF, PFI scheme. Budget Reductions/Efficiencies – contributing towards the overall budget reduction of £4.2 million over the remaining life of the contract. | 1,000 | - | - |
| Project – Feasibility of the investment in an energy company Budget Reductions/Efficiencies – to be determined through the feasibility | 50 | - | - |
| Project – Professional fees associated with the Customer Services Review. Budget Reductions/Efficiencies – contributing towards the overall annual budget reduction of £1.5 million. | 200 | - | - |

Note:

1. The implications of this plan are fully reflected in the Capital Programme and Treasury Management Strategy including the appropriate prudential indicators.
2. Further projects will be developed and an updated plan will be reported to Cabinet.

Council Element of Council Tax for 2016/17 per Band

| Valuation Band (1 April 1991) | Values not exceeding £40,000 | Values exceeding £40,000 but not exceeding £52,000 | Values exceeding £52,000 but not exceeding £68,000 | Values exceeding £68,000 but not exceeding £88,000 | Values exceeding £88,000 but not exceeding £120,000 | Values exceeding £120,000 but not exceeding £160,000 | Values exceeding £160,000 but not exceeding £320,000 | Values exceeding £320,000 |
|--|---|---|---|---|--|---|---|--|
| | A | B | C | D | E | F | G | H |
| | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 |
| Council Tax 2015/16 (Council element) | 913.10 | 1,065.28 | 1,217.46 | 1,369.64 | 1,674.01 | 1,978.37 | 2,282.74 | 2,739.29 |
| 1.99% increase in Council Tax | 18.17 | 21.20 | 24.23 | 27.26 | 33.31 | 39.37 | 45.43 | 54.51 |
| 2% Adult Social Care Precept | 18.26 | 21.31 | 24.35 | 27.39 | 33.48 | 39.57 | 45.65 | 54.79 |
| Council Tax 2016/17 (Council element) | 949.53 | 1,107.79 | 1,266.04 | 1,424.29 | 1,740.80 | 2,057.31 | 2,373.82 | 2,848.59 |

Analysis of Adjustments to Previously Approved Budget Reduction Proposals

| | | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---------|---------|---------|---------|
| | | £000 | £000 | £000 | £000 |
| Previously Approved Budget Reduction Proposals | Description of change | | | | |
| Future Space | Acceleration of delivery of budget reduction | (338) | 444 | (108) | (158) |
| Haven contract | Rephasing of budget reduction to allow for transition to reduced level of funding. | 50 | (50) | - | - |
| HSSI - very sheltered contracts | Amendment in budget reduction to reflect the outcome of contract negotiations | 152 | - | - | - |
| Care purchasing | Rephasing to reflect current implementation plan | 500 | (500) | - | - |
| Education proposals | Rephased to reflect a realistic delivery plan | 350 | - | (150) | (125) |
| Terms and conditions | It is intended that this budget reduction will be delivered with support of the unions, however, it will be removed from budget in order to be prudent, but remains a target and monitoring mechanism will be developed | 400 | - | - | - |
| Council Tax Benefits overpayments | This budget reduction has now been incorporated into the forecast income from council tax | (50) | - | - | - |
| Improve collection rate for Council Tax | This budget reduction has now been incorporated into the forecast income from council tax | 60 | - | - | - |
| New Budget Reduction Proposals | | | | | |
| ITA levy | Reduction in the forecast levy in line with latest projections from the ITA | (200) | - | - | - |
| Gas Contract | Reduction in contract costs following a tender process | (200) | - | - | - |
| Charge to Wolverhampton Homes | Income generated through re-couping costs associated with investment in ICTS | (250) | - | - | - |