



# Cabinet Meeting

## 8 January 2014

<b>Report title</b>	5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Andrew Johnson Resources	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All	
<b>Accountable director</b>	Simon Warren, Chief Executive  Sarah Norman, Community  Keith Ireland, Delivery  Tim Johnson, Education and Enterprise	
<b>Originating service</b>	Delivery	
<b>Accountable employee(s)</b>	Mark Taylor Tel Email	Assistant Director Finance 01902 55(6609) <a href="mailto:mark.taylor@wolverhampton.gov.uk">mark.taylor@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	None	

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### Recommendation(s) for action or decision:

The Cabinet is recommended to approve:

- (i) The changes to the Budget and Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19 for General Fund services, previously approved by Cabinet on 23 October 2013, as detailed at paragraph 5 and shown in the table below:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
<b>Projected Budget Challenge – October</b>	<b>26,693</b>	<b>22,240</b>	<b>15,911</b>	<b>18,953</b>	<b>13,762</b>	<b>97,559</b>
Changes to growth projections	2,257	25	1,453	7,379	(1,130)	9,984
Changes to savings projections	2,596	(3,000)	500	(500)	-	(404)
Changes to Corporate Resources projections	(75)	10,603	2,901	(2,970)	6,100	15,881
<b>Net Change to Projected Budget Challenge</b>	<b>4,101</b>	<b>7,628</b>	<b>4,854</b>	<b>3,909</b>	<b>4,970</b>	<b>25,461</b>
<b>Revised Projected Budget Challenge</b>	<b>30,793</b>	<b>29,868</b>	<b>20,765</b>	<b>22,862</b>	<b>18,732</b>	<b>123,020</b>

- (ii) The adapted strategy to address the increased deficit as set out at paragraph 7.7, requiring services to be cut deeper and faster, namely:
- a. Cease expenditure during the remainder of 2013/14 on all but absolutely essential items, in order to limit the call on general balances
  - b. Subject to the outcome of budget consultation accelerate the implementation of some of the existing 165 savings proposals to bring forward a minimum of £4 million into 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report
  - c. Identify a minimum of £5 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report, subject to consultation as necessary
  - d. Identify a further minimum of £10 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2015/16, in time to be incorporated into the July 2014 Cabinet Budget report
  - e. That a report be presented to Cabinet to change the terms of the Council's redundancy policy to statutory minimum. It should be noted that it cannot be guaranteed that the Council will be able to allow employees to access a full pension between the ages of 55 and 60 after 31 March 2014.
  - f. Review the capital programme and Treasury Management Strategy to identify further savings
- (iii) The opening of a phase 3 of the voluntary redundancy programme with a closing date of 31 March 2014 ahead of the introduction of the revised redundancy policy.

## Recommendations for noting:

The Cabinet is asked to note:

1. The implications of the provisional local government finance settlement for the Council, as detailed at section 3.3, and in particular:
  - a. The £118 million (42%) cash cut in government funding from 2010/11 to 2015/16, equivalent to a cut of £147 million (52%) in real terms.
  - b. That the provisional settlement for 2014/15, a cut of 13.2%, was in line with that in the draft Budget and Medium Term Financial Strategy and, together with other minor adjustments, resulted in an increase in budgeted corporate resources of £0.754 million.
  - c. That the illustrative settlement for 2015/16 was substantially worse than projected with a cut of 19.3% (29.9% over just two years), resulting in a reduction in corporate resources compared to the Medium Term Financial Strategy of £9.851 million.
2. The remaining projected budget deficit for 2014/15 of £14.431 million rising to £58.572 million by 2018/19 after taking account of savings proposals of £64.448 million (paragraph 7.4);
3. That all other aspects of the Budget and Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19 for General Fund services, previously approved by Cabinet on 23 October 2013, remain unchanged;
4. That taking account of the revised projections, including the projected cost of redundancy, the Council's general balances could be exhausted by the beginning of 2015/16 and the Council could effectively be insolvent soon after that. Urgent action is therefore required to identify further significant savings before the 2014/15 budget is set by Full Council in March 2014.
5. That due to the significant uncertainty facing the Council in the future, particularly relating to Government funding, pay and price pressures and demand for services, the remaining projected deficit of £58.572 million, after savings proposals, over the medium term could change significantly over the coming years as more information becomes available (paragraph 3.3.8);
6. That due to the scale of the projected cuts that are now required over the next five years the ability of the Council to deliver its priorities is now at significant risk (paragraph 6.6);
7. That having delivered savings in excess of £100 million since 2009/10, combined with the significant savings already proposed over the next 5 years, the scope to deliver further savings is ever decreasing and as a result this will almost certainly be the most challenging period that the Council has ever faced (paragraph 8.1).

## **Purpose**

- 1.1** This is the third report provided to Cabinet on the Budget Strategy for 2014/15 and the Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19. This incorporates the outcome of the further detailed budget work that has been performed over the last two months, in order to further develop the strategy to address the projected budget deficit, as well as reflecting the impact of the provisional local government finance settlement announced on 18 December 2013.
- 1.2** This report focusses solely on the changes arising since the last report to Cabinet during October. Accordingly, those elements of the budget that remain unchanged since then have not been repeated within this report. This report should therefore be considered in conjunction with the 23 October 2013 Cabinet report.
- 1.3** The report also provides an update on budget consultation and scrutiny, as well as providing an update on general fund reserves and budget risks.

## **2.0 Summary**

- 2.1** At its meeting on 26 February 2013 Cabinet considered and approved the Budget Strategy 2013/14 and Medium Term Financial Strategy, this included a forecast deficit of £59.2 million by 2017/18. Since that time Cabinet has received the following further reports:
  - 24 July 2013 - Draft Budget Strategy for 2014/15 and the Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19 which identified that the cumulative budget deficit, before savings proposals, had risen to £86.0 million by 2018/19.
  - 23 October 2013 - 5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19 which identified that the cumulative budget deficit, before savings proposals, had risen to £97.6 million by 2018/19
- 2.2** As Councillors will recall at the time of reporting it was made clear that the projected deficit remained subject to potentially significant change due to the significant uncertainty within which the Council is currently operating. This report provides Cabinet with an update on the extent of the projected cumulative budget deficit, before savings proposals, which has now risen to £123.0 million reflecting further projected reductions in central government funding, revisions to planned savings and other assumptions made in the Medium Term Financial Strategy since 23 October 2013. A summary of the changes that have been reflected in the projections since October is provided in Table 1 below, whilst a detailed analysis is provided at Appendix A:

**Table 1 - Medium Term Financial Strategy: Analysis of Changes Since October 13**

	<b>2014/15 to 2018/19 Total £000</b>
<b>Projected Budget Challenge – October</b>	<b>97,559</b>
Changes to growth projections	9,984
Changes to savings projections	(404)
Changes to Corporate Resources projections	15,881
<b>Net Change to Projected Budget Challenge – January 2014</b>	<b>25,461</b>
<b>Revised Projected Budget Challenge</b>	<b>123,020</b>

- 2.3** After taking account of the savings proposals that have been identified, which now amount to £64.448 million over the 5 years, the remaining projected budget deficit stands at £14.431 million in 2014/15 rising to £58.572 million by 2018/19.
- 2.4** It is however important to note that this remaining projected budget deficit assumes that all of these savings proposals are approved and implemented. However, these proposals remain subject to change as the scrutiny of the budget by Councillors, as well as budget consultation with stakeholders, are currently in progress. The outcome of these exercises is scheduled to be reported to Cabinet ahead of the final budget report being reported in February 2014.
- 2.5** It is also important to note that taking account of the revised projections, including the projected cost of redundancy, the Council's general balances could be exhausted by the beginning of 2015/16 and the Council could effectively be insolvent soon after that. Urgent action is therefore required to identify further significant savings before the 2014/15 budget is set by Full Council in March 2014.

### **3.0 Background**

#### **3.1 2013/14 Budget**

**3.1.1** At its meeting on 26 February 2013 Cabinet considered and approved the Budget Strategy 2013/14 and Medium Term Financial Strategy for the period up to 2017/18. This included savings totalling £17.3 million in 2013/14, rising to £25.1 million in 2014/15. However, this still left a forecast deficit of £59.2 million by 2017/18.

**3.1.2** The 2013/14 approved net General Fund budget is summarised in Table 2 below:

**Table 2 – Approved General Fund Budget and Financing 2013/14**

	<b>2013/14 Budget £000</b>
<b>Directorate</b>	
Community	161,552
Delivery	42,524
Education & Enterprise	49,201
Office of the Chief Executive	1,684
Corporate Budgets	669
<b>Net General Fund Budget</b>	<b>255,630</b>
<b>Funding</b>	
Government Grant (General)	(178,406)
Council Tax	(73,297)
Collection Fund Surplus	(211)
<b>Total Resources</b>	<b>(251,914)</b>
<b>Budget Deficit</b>	<b>3,716</b>
<b>Budgeted Use of General Balances</b>	<b>(3,716)</b>
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### 3.2 2013/14 Forecast

**3.2.1** On 17 December 2013 Cabinet (Resources) Panel received the latest revenue budget monitoring report, which projected a net over spend of £6.8 million (2.65%) against the General Fund net budget requirement of £255.7 million. This overspend related largely to the cost of Looked after Children (£4.9 million), and Social Care Commissioning Budgets (£1.8 million).

**3.2.2** Action is being taken within Directorates to reduce this forecast, however, for planning purposes it is currently being assumed that the £6.8 million will be required from general balances to fund the in-year overspend.

**3.2.3** A thorough review of all detailed budgets is now largely complete, as a result the anticipated on-going implications of the current years overspend has been built into the projections within this report. It should however be noted that these estimates remain subject to change until this work is completed.

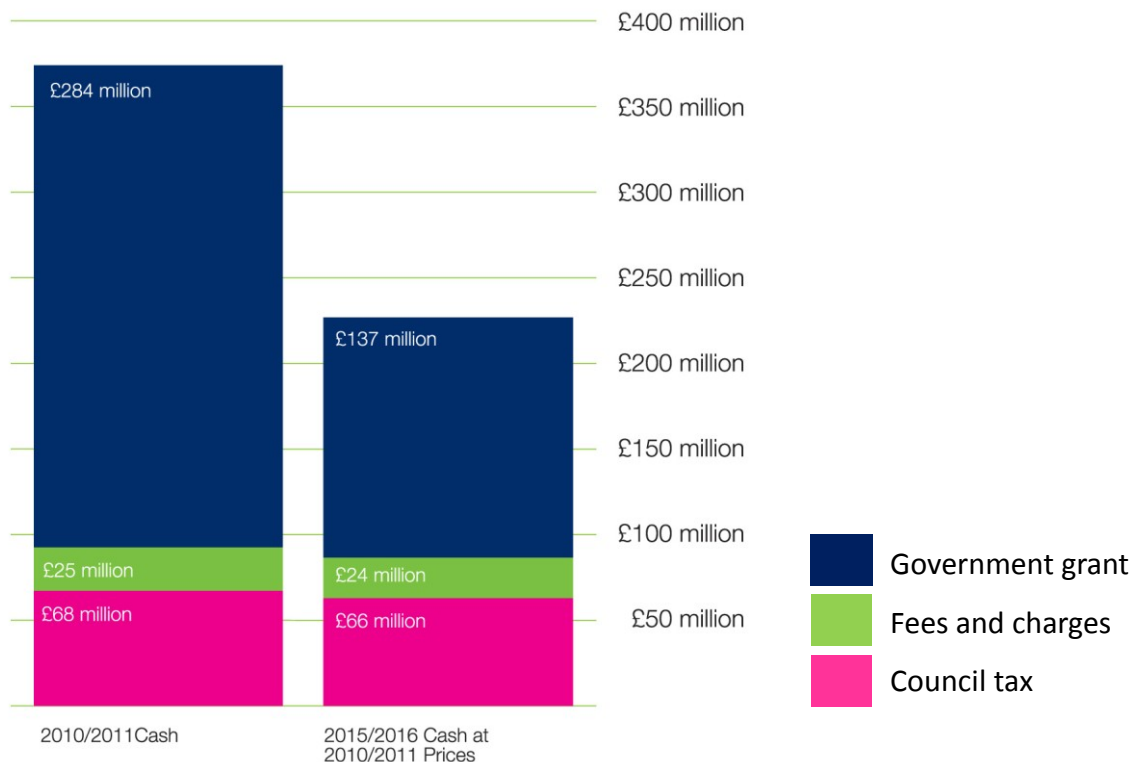
### 3.3 Changes in Central Government Funding

**3.3.1** Successive cuts in Government grant support to councils and a Council Tax freeze over the last four years have led to a drastic reduction in the financial resources available to the Council. And this has come at a time when cost pressures and demand on services

have continued to grow due to an increasing birth rate, changes to the make-up of our communities and the fact that people are living longer. The effects of government changes to benefits and welfare reform generally is also forecast to increase the demand for council services.

**3.3.2** As can be seen in Chart 1 below by 2015/16 it is projected that Government grant will have reduced by £147 million (52%) in real terms compared to 2010/11.

**Chart 1 – Loss of Resources**



**3.3.3** Following the announcement of the Provisional Local Government Finance Settlement on 18 December 2013 the following key points were identified:

**3.3.4 New Homes Bonus** - The proposed passing on of £400 million nationally to Local Enterprise Partnerships (LEPs) from the New Homes Bonus was cancelled. All New Homes Bonus income will remain with Local Authorities and LEPs will be funded separately via the Local Growth Fund. The New Homes Bonus and the Adjustment Grant have been recalculated on this basis and also incorporate updated planning projections.

**3.3.5 Funding of Transformation Costs through the Application of Capital Receipts** - £200 million nationally is to be made available from new capital receipts to fund one-off transformation costs from 2015/16. Application details are awaited but it is possible that if the Council were to apply for this funding it would need to pursue a course of service transformation before it knows if it has the ability to fund these costs from its capital receipts.

- 3.3.6 Better Care Fund** – The establishment of the new Better Care Fund from pooled NHS and local authority budgets has been confirmed. This will be valued nationally at £3.8 billion in 2015/16 and will be used to transform and integrate health and social care services. The fund will be created from existing NHS monies passed to local authorities for adult social care (£1.1 billion), additional NHS funding (1.9 billion), disabled facilities capital funding (£220 million) and other, primarily NHS funding, (£564 million). For Wolverhampton the provisional fund share amounts to £17.9 million, although part of this is performance related and therefore subject to the achievement of targets. The fund will be used to deliver existing services more affectively and therefore offset demographic growth in older people requiring care (existing savings proposal 0183).
- 3.3.7 Local Government Finance Settlement for 2014/15 and 2015/16** – As reported to Cabinet on 23 October 2013 it was particularly challenging to predict central government funding and in preparing the Medium Term Financial Strategy a proportionate approach was required, however, the uncertainty was such that even in 2014/15 there may still have been significant changes when the settlement was received in December 2013. In addition comparisons of the various forecasts of Wolverhampton’s Government grant were provided and it was reported that if the worst case were accurate then the City Council would be some £27 million worse off than was being projected. Despite this the provisional settlement figure for 2014/15, a cut of 13.2%, was in line with that in the draft Budget and Medium Term Financial Strategy and, together with other minor adjustments, resulted in an increase in budgeted corporate resources of £0.754 million. However the illustrative settlement for 2015/16 was substantially worse than projected with a cut of 19.3% (29.9% over just two years), resulting in a reduction in corporate resources compared to the Medium Term Financial Strategy of £9.851 million.
- 3.3.8** It is particularly challenging to predict central government funding beyond the two years that were included in the Provisional Local Government Finance Settlement announcement. Once again in preparing this Medium Term Financial Strategy a proportionate approach has been adopted, however, Councillors should note that there is a significant level of uncertainty beyond 2015/16 due to the lack of detailed information that is available.
- 3.3.9** Whilst it is very difficult to predict beyond 2015/16 some sources have quoted that by 2017/18 the City Council’s Revenue Support Grant could be as low as £25.1 million. Current forecasts for Wolverhampton City Council Revenue Support Grant in 2017/18 are:
- Revised medium term financial strategy : £41.0 million
  - Local Government Association : £42.5 million
  - LG Futures : £25.1 million
- 3.3.10** There is clearly a significant difference in projections, and if the worst case were accurate then the City Council would be approximately £16 million worse off than the resource figures assumed within this report.
- 3.3.11** The Government has stated it intends to announce the Council Tax Referendum threshold principles early in 2014 and has indicated that changes may be made to the



2% threshold for some categories of authorities. Clearly this presents further uncertainty for the projected deficit with a 2% increase in Council Tax currently assumed.

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

4.1 Key budget preparation parameters are set out in Appendix B. These parameters form the basis for key cost and resource assumptions within the Medium Term Financial Strategy. Specific assumptions are set out in more detail below.

4.2 As with the projected levels of Government grant, projecting these key assumptions over an extended period is particularly challenging and whilst these are based on the best available information, in the end they represent a professional judgement and therefore they remain subject to potentially significant change which could therefore result in significant changes to the overall financial challenge facing the Council.

#### 4.3 Pay Related Pressures

4.3.1 The projected increase arising from pay related pressures is detailed in Table 3 below reflects the estimated impact of pay awards, increases in employer's national insurance and pension contributions and other known pay related pressures. The table has been updated to include the increase in pressure relating to the latest pension deficit recovery agreed with the West Midlands Pension Fund as a result of the triennial actuarial valuation that is currently in progress. In addition estimates of the cost of actuarial strain, arising from the redundancies that are anticipated over the coming years, have been incorporated into the projections having secured the agreement of the pension fund to spread these costs over three years.

**Table 3 – Analysis of Pay Related Pressures**

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Pay Award	1,350	1,330	1,330	2,660	3,325	9,995
Employers Pension	2,091	2,685	4,811	10,156	(534)	19,209
National Insurance	-	-	672	-	-	672
Annual Increments	756	1,549	1,248	750	750	5,053
<b>Total</b>	<b>4,197</b>	<b>5,564</b>	<b>8,061</b>	<b>13,566</b>	<b>3,541</b>	<b>34,929</b>

#### 4.4 Budget Pressures and Developments

4.4.1 The following table sets out a summary of budget growth for 2014/15. Further information on budget pressures and developments before savings can be found on the Council's website via the following link <http://www.wolverhampton.gov.uk/budgetsavings>.

**Table 4 – Summary of Budget Pressures and Developments 2014/15**

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Inflationary Pressures	1,353	2,038	2,416	2,919	2,923	<b>11,649</b>
Demographic & Demand Pressures	9,500	2,170	2,170	2,170	2,170	<b>18,180</b>
Developments	-	400	716	-	-	<b>1,116</b>
<b>Total</b>	<b>10,853</b>	<b>4,608</b>	<b>5,302</b>	<b>5,089</b>	<b>5,093</b>	<b>30,945</b>

### Council Tax

**4.4.2** Projected income from council tax is based on an assumption that there will be a modest increase in the tax base for 2014/15 (0.5%) combined with a 2% increase in Council Tax levels, the first time for four years. However, whilst this is the current maximum permitted increase without a referendum, it should be noted that the government has announced that it intends to review referendum levels before 31 March 2014. Therefore, should the referendum threshold reduce the extent of the projected challenge facing the Council will increase further.

**4.4.3** The resulting levels of council tax for just the council's element of the council tax bill are detailed in the table below:

**Table 5 – Projected Council Tax 2014/15 by Band (Council Element Only)**

Band	Number of Properties	Upper value of Property (1991) £	Ratio	Wolverhampton City Council £
A	55,531	40,000	6/9	913.27
B	23,185	52,000	7/9	1,065.48
C	15,852	68,000	8/9	1,217.69
D	6,335	88,000	9/9	1,369.91
E	2,934	120,000	11/9	1,674.34
F	1,658	160,000	13/9	1,978.75
G	894	320,000	15/9	2,283.18
H	118		18/9	2,739.82

### 4.5 Structural Budget Issues

**4.5.1** As part of the development of the Budget and Medium Term Financial Strategy a detailed review of all budgets is being undertaken. This work, whilst still in progress, has identified a number of structural issues in the budget relating to historic savings values that are

now identified as unachievable and to the non-controllable costs issues identified as part of the closure of the 2013/14 accounts.

**4.5.2** Work is continuing to fully evaluate these issues however the estimated impact has been accounted for in the updated figures presented in this report. It should however be noted that these estimates remain subject to change until this work is completed.

#### **4.6 Localised Business Rates**

**4.6.1** The forecasts for localised business rates have been developed with input from Revenues, Regeneration and Planning Services and will continue to be refined during the budget setting period.

**4.6.2** It is important to note that the underlying forecasts for localised business rates reflect a positive increase arising from the regeneration aspirations for the city over the medium term as well as known developments such as Sainsbury's and Tesco. However, this is set against an average decline in business rates in Wolverhampton of 0.26% per annum over the last six years, after allowing for the inflation increase in the multiplier, this therefore continues to be an ambitious assumption.

**4.6.3** The Government announced a number of measures in the Autumn statement to support businesses through measures affecting business rates. These included capping the increase in business rates at 2% (as opposed to RPI), extending small business rates relief, a business rate discount for smaller retail premises and the accelerated resolution of outstanding rating appeals. It was however announced that the impact of these measures on local authorities would be fully funded by central government and this is the assumption that has been used in the latest iteration of the Budget. However the details of the operation of this funding are yet to be announced and there may yet be an adverse impact upon resources.

#### **4.7 Revenue Support Grant**

**4.7.1** As detailed in section 3.3, as a result of the provisional settlement announced on 18 December 2013, there has been little change in the funding anticipated for 2014/15 with a cut of 13.2%. However a substantial reduction in funding of approximately £10 million has been reflected for 2015/16 as a result of the illustrative settlement for that year which is a cut of 19.3%. In addition to this, further reductions in funding have also been built into the Medium Term Financial Strategy to 2018/19 in order to reflect a more prudent position closer to other forecasters.

**4.7.2** Again as set out in section 3.3, whilst it is particularly challenging to predict central government funding, forecasting models suggest that funding will reduce drastically over the medium term. Whilst a proportionate view has been taken at this stage; some forecasters have predicted that the Council's Revenue Support Grant could be as much as £19 million lower than is being projected by 2017/18. These projections therefore remain subject to potentially significant changes until the actual level of grant is notified by the Government in December each year.

#### 4.8 Top up / Tariff and Levy Grants

- 4.8.1** The council is a top-up authority under the new system. The top up grant is calculated as the sum of money required to bridge the gap between the underlying need of an authority as measured by formula grant and its combination of other grants receivable from central government.
- 4.8.2** In order to attract a levy payment, from an underlying increase in business rates, the council would have to succeed in generating a significantly greater than historical level of business rates increase. It is not currently expected that the council will be required to make a levy payment in the foreseeable future.
- 4.8.3** The top up is fixed for a period of up to ten years but rises with in line with the Retail Price Index (RPI) over that time.

#### 4.9 Specific Grants

- 4.9.1** The following table sets out the anticipated specific grants for each year, it should however be noted that some specific grants are yet to be announced so these figures remain subject to change:

**Table 6 – Specific Grants**

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Specific Grants for previous year	(359,530)	(358,685)	(357,395)	(357,277)	(357,165)
Changes in Specific Grants	665	1,470	118	112	-
Specific Grants for this year	<b>(358,865)</b>	<b>(357,395)</b>	<b>(357,277)</b>	<b>(357,165)</b>	<b>(357,165)</b>

#### 5.0 Updated Medium Term Forecast – prior to new savings

- 5.1** Due to the extent of the financial challenges facing the Council it is more important than ever to consider next year's budget as part of a Medium Term Financial Strategy. The following table details projections covering the five year period to 2018/19. These figures estimate the costs of continuing the 2014/15 expenditure projections, altered for inflation and the effect of approved policies.
- 5.2** The scale of the projected deficit over the medium term is now such that large scale budget cuts need to be identified, approved and implemented as soon as possible. It is imperative that plans now cover the entire five year period. This is necessary because delivering savings of this magnitude will invariably involve some options that are likely to take several years to develop and implement.
- 5.3** The table is based on the assumptions outlined in section 4 above, and assumed increases in council tax taking account of the Government's intention to keep such increases low. Although these assumptions could vary significantly during the year, as

well as over the medium term, the Council is now faced with the need to make savings of £123.0 million over the next five years, with an immediate focus on delivering £30.8 million by 2014/15.

- 5.4** Compared to the projections reported to Cabinet in October, which stood at £97.6 million and £26.7 million respectively, the situation has become even more challenging. As Councillors will recall at the time of reporting it was made clear that the projected deficit remained subject to potentially significant change due to the significant uncertainty within which the Council is currently operating. A summary of the changes that have resulted in these revised projections is provided below, whilst a detailed analysis is provided at Appendix A:

**Table 7 - Medium Term Financial Strategy: Analysis of Changes Since October 13**

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
<b>Projected Budget Challenge – October</b>	<b>26,693</b>	<b>22,240</b>	<b>15,911</b>	<b>18,953</b>	<b>13,762</b>	<b>97,559</b>
Changes to growth projections	2,257	25	1,453	7,379	(1,130)	9,984
Changes to savings projections	2,596	(3,000)	500	(500)	-	(404)
Changes to Corporate Resources projections	(75)	10,603	2,901	(2,970)	6,100	15,881
<b>Net Change to Projected Budget Challenge</b>	<b>4,101</b>	<b>7,628</b>	<b>4,854</b>	<b>3,909</b>	<b>4,970</b>	<b>25,461</b>
<b>Revised Projected Budget Challenge</b>	<b>30,793</b>	<b>29,868</b>	<b>20,765</b>	<b>22,862</b>	<b>18,732</b>	<b>123,020</b>

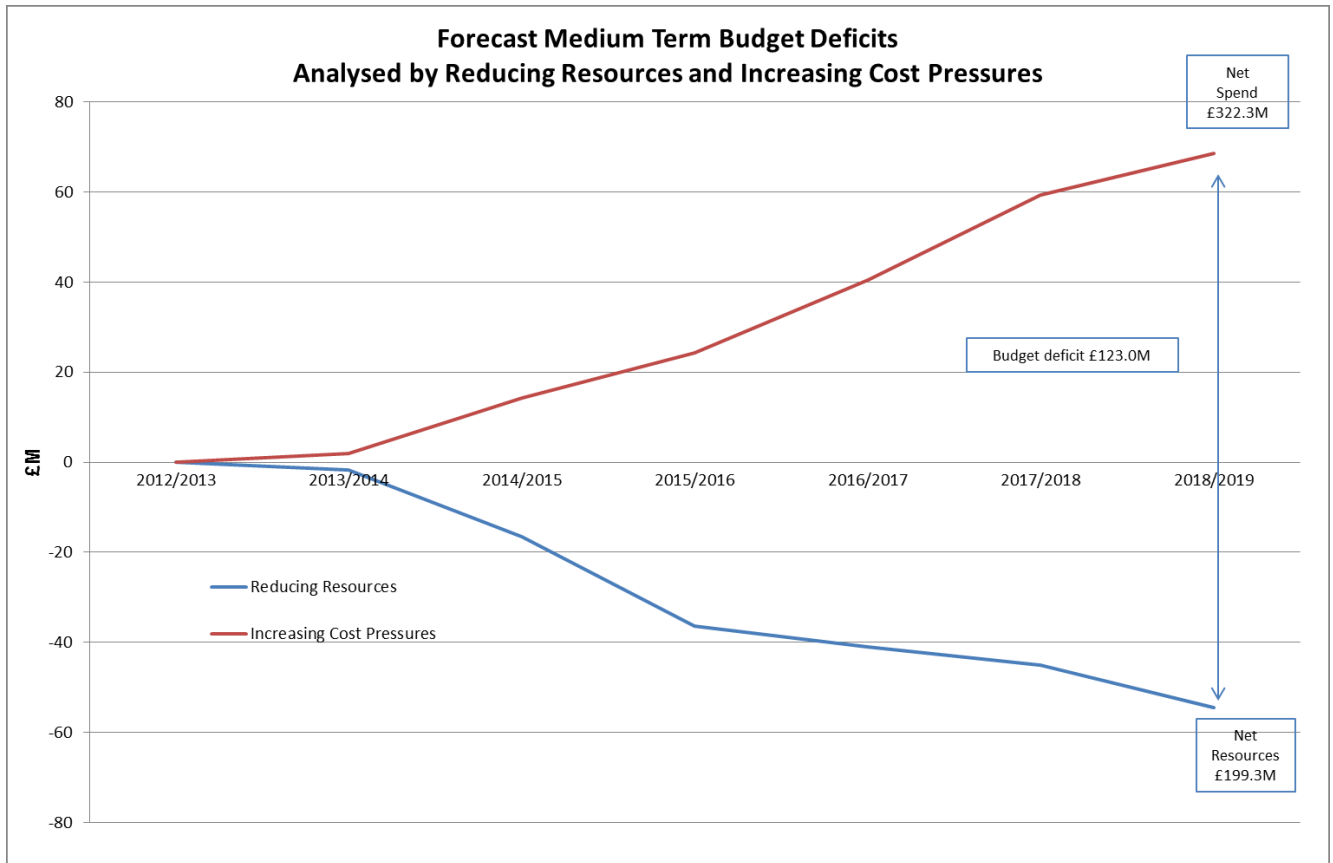
- 5.5** It is also important to note that the revised projected budget deficit already assumes the successful delivery of prior year savings amounting to £6.3 million during 2014/15, many of which will be particularly challenging. Should any of these proposals and options not be delivered the revised projected budget deficit will increase by an equivalent sum and alternative savings will have to be identified.

**Table 8 – Medium Term Financial Strategy 2014/15 to 2018/19**

	Para	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Previous Years Net Budget Brought Forward</b>		<b>255,630</b>	<b>267,638</b>	<b>277,820</b>	<b>294,135</b>	<b>131,059</b>
<b>Increasing Cost Pressures:</b>						
a. Pay Related Pressures	4.3	4,197	5,564	8,061	13,566	3,541
b. Treasury Management		3,495	3,345	2,989	658	669
c. Budget Growth	4.4	10,853	4,608	5,302	5,089	5,093
d. Full year effect of prior years savings		(6,327)	(3,459)	(154)	(500)	-
e. Net change in specific grants	4.10	(210)	124	117	111	-
		<b>12,008</b>	<b>10,182</b>	<b>16,315</b>	<b>18,924</b>	<b>9,303</b>
<b>Net Budget (Before Use of Resources)</b>		<b>267,638</b>	<b>277,820</b>	<b>294,135</b>	<b>313,059</b>	<b>322,362</b>
<b>Projected Corporate Resources</b>						
Council Tax	4.5	(75,137)	(77,023)	(78,956)	(80,938)	(82,969)
Revenue Support Grant	4.8	(86,936)	(61,565)	(51,283)	(41,065)	(30,539)
Enterprise Zone Business Rates		(370)	(1,131)	(1,465)	(2,334)	(1,400)
Collection Fund Deficit	App A	700	-	-	-	-
Top Up Grant	4.9	(35,226)	(36,198)	(37,605)	(39,149)	(39,149)
Localised Business Rates	4.7	(36,582)	(38,161)	(39,565)	(41,140)	(41,140)
New Homes Bonus		(2,328)	(3,081)	(3,835)	(4,145)	(4,145)
New Homes Bonus Adjustment Grant		(967)	-	-	-	-
		<b>(236,846)</b>	<b>(217,158)</b>	<b>(212,709)</b>	<b>(208,771)</b>	<b>(199,342)</b>
<b>Projected Annual Change in Budget Deficit</b>		<b>30.792</b>	<b>29.869</b>	<b>20.764</b>	<b>27.862</b>	<b>18.732</b>
<b>Projected Cumulative Budget Deficit</b>		<b>30.792</b>	<b>60.662</b>	<b>81.426</b>	<b>104.288</b>	<b>123.020</b>

**5.6** The following chart sets out the extent of the revised projected budget deficit, before savings proposals, over the next five years and demonstrates the impact of the increasing cost pressures facing the Council, against the on-going reduction in resources available:

**Chart 2 – Revised Projected Budget Deficit Prior to Savings**



## 6.0 Corporate Priorities

**6.1** The City Council has strong financial planning and control systems with clear links to the Council's strategic priorities and the service planning framework. The Medium Term Financial Strategy provides a firm foundation from which to determine future patterns of spending on priority areas and programmes. This medium term planning framework:

- Allows changes in demand for services to be highlighted;
- Allows comparisons to be made between the cost of meeting those demands and the likely level of resources available;
- Provides for opportunities to highlight the costs of alternative policies or different ways of delivering services, and
- Provides Councillors with a mechanism for tracking shifts in resources and the impact of these shifts on organisational and service performance.

**6.2** The Council's budget determination processes are informed by :

- Corporate priorities;
- Changes in demand levels, often driven by demographic changes;
- The emergence of new local and national priorities;
- Public consultation;
- Assessments of value for money delivered through current service configurations, and
- Levels of current performance and targets for improvement.

**6.3** Council resources are continually rebalanced to support Corporate Plan objectives which are:

- **Encouraging Enterprise and Business;**
- **Empowering People and Communities;**
- **Re-invigorating the City, and**
- **Confident Capable Council.**

**6.4** The Council's strategic approach to address the deficit is to:

- Stimulate economic activity and private-sector employment by bringing in more business and helping local people develop the skills they need to compete for jobs more effectively. The Council will build on its proven track record of bringing investment into the City through, e.g. Jaguar Land Rover and other companies in order to generate real opportunities for local people, and
- Manage demand for core services by using early intervention to help families in trouble live unsupported, independent lives.

**6.5** The outcome of the budget engagement exercise during 2013 indicated that these are the priorities that local people want us to focus on. Delivering these priorities will not be in addition to 'business as usual' – it is and will be the Council's core business.

**6.6** Given the financial and legal background, it will mean that the Council has to look very hard at the other things it does and, if necessary, stop doing those that do not make a direct or significant contribution to our real priorities. It should however also be noted that due to the scale of the projected cuts that are now required over the next five years the ability of the Council to deliver these real priorities is now at significant risk.

## **7.0 Savings Proposals**

**7.1** Since reporting to Cabinet in October work has continued to identify, cost and evaluate savings proposals based on the following strategy:

- Substantially reducing the number of Council employees;
- Reducing funding for all services (some much less in proportion to others);
- Stopping services that can no longer be provided;
- Closing facilities that can no longer be supported;
- Reducing Voluntary Sector grants;



- Greater empowerment of communities to run services;
- Services requiring subsidy to balance their budget will need to reduce costs or increase income;
- Reviewing schools expenditure funded by General Fund;
- Use resources to lever in other funds/invest to save, and
- Reviewing the capital programme to underpin Corporate Plan Objectives.

**7.2** The Councils objective is to deliver universal services as efficiently and cost effectively as possible, whilst having a clearly defined method of gaining maximum benefit to individuals, families and communities from targeted services.

**7.3** Whilst work is continuing, the specific savings remain unchanged from those included in the October report and currently out for consultation. These are detailed in the October report and are summarised in Table 9 below;

**Table 9 – Savings proposals by type, by year**

	No.	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Efficiency	77	4,566	11,157	3,105	3,707	4,817	<b>27,352</b>
Growth Avoidance	8	540	2,333	2,333	2,683	2,799	<b>10,688</b>
Income Generation	13	991	488	676	713	998	<b>3,866</b>
Invest to Save	2	100	550	-	-	-	<b>650</b>
Cut in Service	65	10,071	7,926	1,284	1,834	777	<b>21,892</b>
	<b>165</b>	<b>16,268</b>	<b>22,454</b>	<b>7,398</b>	<b>8,937</b>	<b>9,391</b>	<b>64,448</b>

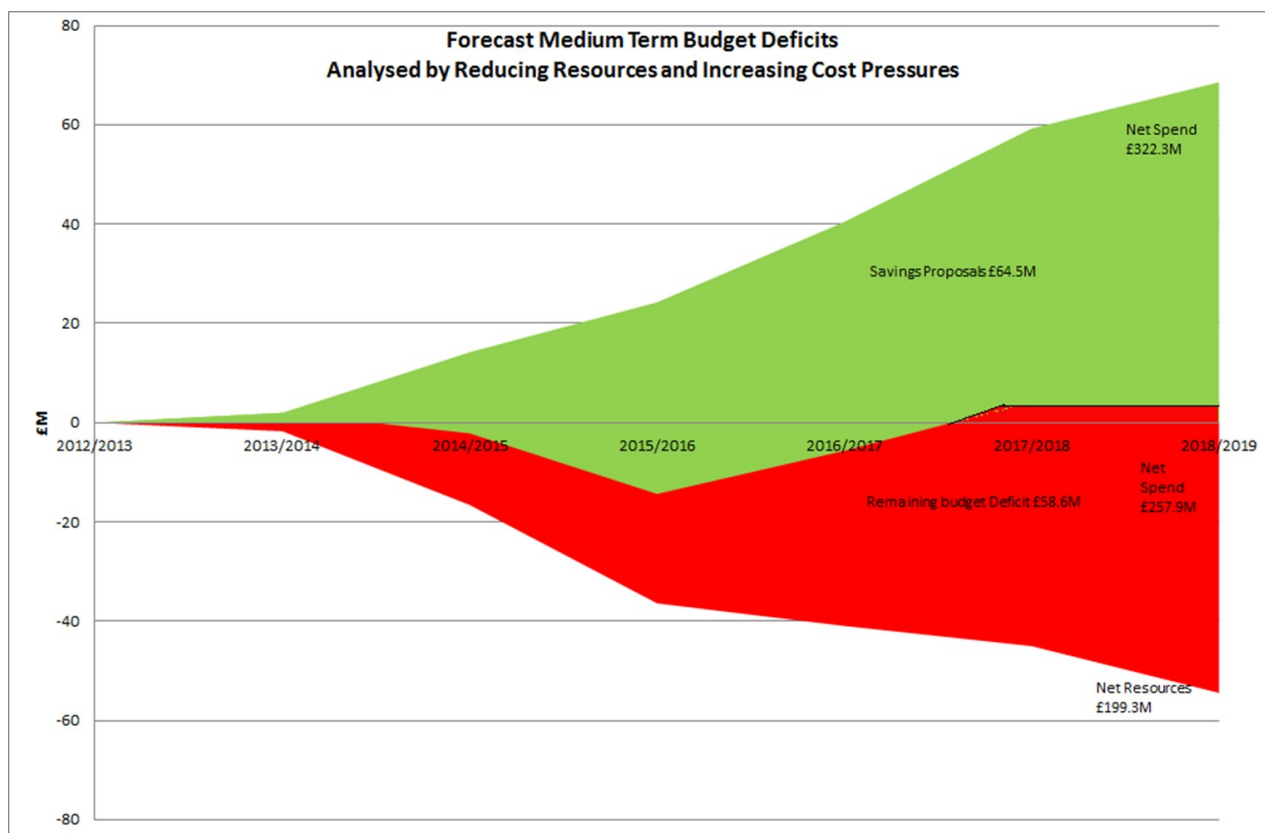
**7.4** The following table shows the revised projected budget deficit remaining assuming all proposed savings are implemented:

**Table 10 – Summary of savings proposals against revised budget deficit**

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Revised Budget Deficit	30,792	29,869	15,764	27,862	18,732	<b>123,020</b>
Savings Identified	(16,361)	(22,268)	(7,491)	(8,937)	(9,391)	<b>(64,448)</b>
Annual Change in Revised Budget Deficit net of savings	14,431	7,601	8,273	18,925	9,341	<b>58,572</b>
<b>Cumulative Shortfall</b>	<b>14,431</b>	<b>22,033</b>	<b>30,306</b>	<b>49,231</b>	<b>58,572</b>	

**7.5** Table 10 shows that even if all proposed savings are implemented the Council will still have a projected £58.6 million deficit by 2018/19. The following chart highlights the savings made (green) and the residual deficit (red).

### Chart 3 – Revised Budget Deficit After Savings



**7.6** Now that the level of Government cuts for 2015/16 is more clear, the budget challenge over the five years to 2018/19 is, at £123 million, significantly higher and a revised strategy for dealing with that challenge is now required, which will mean having to cut services deeper and faster. Urgent action is therefore required to identify further significant savings before the 2014/15 budget is set by Full Council, in March 2014, in order to avoid having to rely on a significant sum from general balances to be able to set a balanced budget.

**7.7** Approval is therefore sought to adapt the Council's strategy in order to help address the deficit as follows:

- Cease expenditure during the remainder of 2013/14 on all but absolutely essential items, in order to limit the call on general balances
- Subject to the outcome of budget consultation accelerate the implementation of some of the existing 165 savings proposals to bring forward a minimum of £4 million into 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report
- Identify a minimum of £5 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report, subject to consultation as necessary

- Identify a further minimum of £10 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2015/16, in time to be incorporated into the July 2014 Cabinet Budget report
- That a report be presented to Cabinet to change the terms of the Council's redundancy policy to statutory minimum. It should be noted that it cannot be guaranteed that the Council will be able to allow employees to access a full pension between the ages of 55 and 60 after 31 March 2014.
- The opening of a phase 3 of the voluntary redundancy programme with a closing date of 31 March 2014 ahead of the introduction of the revised redundancy policy
- Review the capital programme and Treasury Management Strategy to identify further savings

## 7.8 Redundancy Programme

**7.8.1** The savings outlined in paragraph 7.3 will have a significant impact on the number of staff employed by the Council. At this stage anticipated full time equivalent (FTE) reductions are set out in Table 11. However, it should be noted that these are the reductions arising from the proposals put forward so far, not those required to meet the total revised budget deficit, which, as identified in paragraph 7.6 is likely to be a much larger number and at least 1,000 by March 2015

**Table 11 – Estimated reduction in FTE Numbers**

<b>Directorate</b>	<b>2014/15 FTE</b>	<b>Total 2014/19 FTE</b>
<b>Community</b>	142	848
<b>Delivery</b>	48	129
<b>Education &amp; Enterprise</b>	85	148
<b>Office of the Chief Executive</b>	4	12
	<b>279</b>	<b>1,137</b>

*Note – these are in addition to savings approved in previous years, including the implementation of the FutureWorks Programme.*

**7.8.2** The Council continues to make progress with the voluntary redundancy exercise having sought volunteers for redundancy/early retirement during late 2013 in order to identify new savings and where possible accelerate the proposals set out in paragraph 7.3. Having received 467 expressions of interest as a result of phase one of the voluntary redundancy programme 262 applications were approved and 41 were deferred for consideration at a later date. Phase two of the scheme closed on 11 November 2013 and a further 311 expressions of interest were received.

**7.8.3** It is the council's policy to avoid making compulsory redundancies wherever it can, but it is now unrealistic to assume that these can be avoided altogether. As previously reported there will be further redundancy schemes in the future although the financial

terms for these schemes may not be the same. As stated in paragraph 7.7 it is proposed that, given the scale of the financial challenge, a report be presented to Cabinet to change the terms of the Council's redundancy policy to statutory minimum.. Therefore phase 3 of the redundancy programme will be opened with a closing date of 31 March 2014 as per paragraph 7.7.

- 7.8.4** Based on an assumption of 1,137 redundancies over the next 2 years, the likely one-off cost to the Council will be £18.7 million. Although staff reductions at that level may not be achieved during that timescales based on the projected job losses arising from the savings proposals this assumption is being made for planning purposes, and in line with the revised strategy, in order to be prudent. It is however also important to note that the need to identify yet further savings over the coming years is likely to mean that there will be further significant redundancy costs to fund, although the impact of the move to a 'statutory minimum' scheme has not been reflected in the projections, in order to be prudent due to the uncertainty regarding the timing of redundancies, so this may offset some of those costs.
- 7.8.5** Discussions with West Midlands Pension Fund have now concluded and it has been agreed that the Council can spread the cost of "pension fund strain" associated with redundancies over 3 years. It is currently anticipated that the strain element of the cost will be approximately 42% (£7.9 million).
- 7.8.6** The outcome of the application to the Government to capitalise the cost of redundancies is still awaited, however, given the level of uncommitted general fund reserves at 1 April 2013 it is unlikely that the Council will be able to take advantage of this option even if the application is successful. This is because the Council would only be able to capitalise redundancy costs in excess of £12 million during the current financial year.
- 7.8.7** All opportunities to fund these costs from capital receipts will be explored. However, at this stage it has been assumed that the cost (approximately £10.8 million before strain) will have to be funded from general balances over the next 2 years.

## **8.0 General Fund Reserves**

### **8.1 General Balances**

- 8.1.1** The following table sets out the projected level of general balances at 31 March 2014:

**Table 12 – Projected General Balances at 31 March 2014**

	£000	£000
<b>Balance at 1 April 2013</b>		<b>(15,928)</b>
<b>Transfers Approved During 2013/14 From:</b>		
Specific Reserves	(7,155)	
Minimum Revenue Provision	(10,000)	(17,155)
<b>Projected Movements in 2013/14</b>		
Budgeted use in 2013/14	3,716	
Quarter 2 Forecast Overspend	6,784	
Direct Contribution of Birmingham Airport Special Dividend	(3,300)	
Redundancy Programme	3,811	11,011
<b>Projected balance at 31 March 2014</b>		<b>(22,072)</b>

**8.1.2** The following table sets out the general balance projections over the medium term and the additional savings now required, over and above the £64.4 million proposed, to maintain the minimum level of £10 million required within the Reserves Policy.

**Table 13 – Projected uncommitted General Fund Reserves**

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Balance brought forward</b>	<b>(22,072)</b>	<b>(620)</b>	<b>21,413</b>	<b>51,719</b>	<b>100,950</b>
Redundancy programme	7,021	-	-	-	-
Revised Projected budget deficit	14,431	22,033	30,306	49,231	58,572
<b>Balance carried forward</b>	<b>(620)</b>	<b>21,413</b>	<b>51,719</b>	<b>100,950</b>	<b>159,522</b>
Shortfall against £10 million minimum	9,380	31,413	61,719	110,950	169,522
Additional annual savings required to maintain £10 million minimum	9,380	12,653	8,273	18,925	9,341
Cumulative additional Savings	9,380	22,033	30,306	49,231	58,572

**8.1.3** There is clearly a very real risk that the Council will be unable to maintain the approved minimum level of general balances in 2014/15 and in future years not have sufficient resources to remain solvent. This further demonstrates the need to adopt the revised strategy set out at paragraph 7.7.

**8.1.4** The legal comments in paragraph 14 set out the implications for the Council in the event of not being able to set a balanced budget.

## **8.2 Specific Reserves**

**8.2.1** Specific reserves represent monies set aside by the Council to fund future expenditure plans. Whilst specific reserves have no basis in statute, they are usually established as a matter of prudent financial management. Each specific reserve has its own restrictions on how and when the funds held within it can be spent.

**8.2.2** As part of the 2014/15 budget process all specific reserves have been reviewed to identify what could be released to the general balance. At the beginning of 2014/15 £44.1 million was held within specific reserves, of this £7.155 million was approved to be transferred to general balances.

## **9 Budget Risk Management**

**9.1** The following table provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology.

**9.2** The six main areas of risk are summarised below along with the assessed level of risk:

**Table 14 – General Fund Budget Risks 2014/15 – 2018/19**

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

<b>Risk</b>	<b>Description</b>	<b>Level of Risk</b>
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.	Red

**9.3** The overall risk associated with the Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19 budget is currently assessed as Red.

**9.4** Details of the risk control measures that are in place in order to manage and mitigate the risks as far as possible have been published on the Council's Website and can be found via the following link <http://www.wolverhampton.gov.uk/budgetsavings>. These risks will be closely monitored and managed throughout the year and regular updates will be presented to Councillors as part of the established budget monitoring arrangements.

**9.5** The Council is planning its budget amidst a high degree of uncertainty, which brings with it risks. As well as specific mitigating actions on individual issues, risks have been addressed in a number of different ways:

- The Assistant Director Finance will work closely with, and where necessary challenge, the Chief Executive, Strategic Directors, Assistant Directors, Heads of Finance and leading councillors throughout the budget process in order that such risks are identified, understood and effectively managed;
- The planning of the budget and service plans are designed to ensure that account can be taken of the need for proper planning of change and of the financial impact in later years of decisions taken now;
- The process of planning the budget will afford the opportunity for services to identify emerging budget pressures, including those related to legislative requirements and demographic changes. Where necessary these will result in new investment, and
- Account will be taken, in planning the budget for future years, of any issues which emerge as part of the process of monitoring the budget during 2013/14.

## **10.0 Budget Consultation**

**10.1** Formal budget consultation commenced during the first week in November. The outcome of this budget consultation will be reported to Cabinet in January 2014, and will be taken into account in the Cabinet's final budget recommendations to Council in March 2014. The approach to budget consultation is summarised in the table below:

**Table 15 – Budget Consultation 2014/15**

<b>Month</b>	<b>Activity</b>	<b>Audience</b>
<b>November to December</b>	Telephone hotline	General Public
	Web Questionnaire	General Public
	Workshops	Groups representing all of the equalities strands (Including Young People and BME groups)
	Stakeholder Meetings	Business, Trades Unions, Third Sector, Schools, Local Neighbourhood Partnerships, private and social landlords, Health Watch, the Youth Council, Wolverhampton Partnership

## **11.0 Budget Scrutiny**

- 11.1** During November 2013, each Scrutiny Panel reviewed and scrutinised the relevant budget matters. All of these views and observations were then reported to Scrutiny Board in December, the outcome of this budget scrutiny will be reported to Cabinet during January 2014.
- 11.2** Scrutiny Board will then consider Cabinet's response to the first round of budget scrutiny as well as undertaking a further round of scrutiny where this budget report will be considered.
- 11.3** The outcome of this budget scrutiny will be taken into account in the Cabinet's final budget recommendations to Council in March 2014.

## **12.0 2014/15 Budget and Medium Term Financial Strategy Process**

- 12.1** The 2014/15 budget and medium term financial strategy is due to be reported to Cabinet on one further occasion before being presented to Council for approval in March 2014.

## **13.0 Financial implications**

- 13.1** The financial implications are discussed in the body of the report.

[NA/06012014/R]



## 14.0 Legal implications

- 14.1 The Authority's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities and the likelihood of achieving any savings proposals.
- 14.2 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 as Chief Financial Officer
- 14.3 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Authority when it is making the statutory calculations required to determine its council tax. The Authority 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 Authority.
- 14.4 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 Authority's medium term financial strategy, and have regard to the level of risk in budget plans, and the Authority's financial management arrangements (including strategies to address risk).
- 14.5 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.
- 14.6 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.
- 14.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2014/15.  
[WT/06012014/I]

## **15.0 Equalities implications**

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

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

### **The strands include everyone**

- 15.2** In relation to determining the overall revenue budget for the council there is always a difficult balance to be struck in deciding the levels at which to invest, reduce expenditure and raise income set against the often competing needs of different groups within the Wolverhampton community.
- 15.3** In order to address these complex issues the council operates an open and consultative approach to budget and council tax determination. Year-on-year and medium term spending forecasts are provided to every household and business ratepayer within the borough as part of the documentation which accompanies the council tax demand.
- 15.4** Budget consultation meetings are held with the education community, the business community, the voluntary sector and trade unions. The council also runs a Citizens' Panel programme through which detailed information is given and detailed feedback received on budget and service priorities.
- 15.5** In determining the budget for 2014/15 considerable focus will be placed on the development of savings proposals. All of these proposals will have an equality analysis screening and a full equality analysis will be conducted on all of those proposals which have equalities implications.
- 15.6** The Council is facing a particularly challenging short and medium term financial environment in which savings must be generated and a tight control on spending maintained. This means that a greater focus than ever is necessary to ensure that core equalities commitments are met. In determining the 2014/15 budget particular attention will be given to attempts to lessen any adverse impact of proposals on individuals and communities in most need.

- 15.7** In summary the council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives. In addition, job reductions will result from future savings proposals. The overall impact of job losses will be the subject of an equality analysis as will the budget as a whole.
- 15.8** Councillors should also be aware that under the Equality Act 2010, they must comply with the Public Sector Equality Duty (PSED) when making budget decisions. What this means in practice is that Councillors must consciously think about the three aims of the public sector equality duty as part of the decision making process, the three aims are to have due regard to the need to:
- Eliminate discrimination, harassment and victimisation;
  - Advance equality of opportunity by removing or minimising disadvantages, meet differing needs and encouraging participation, and
  - Foster good relations between people from different groups.
- 15.9** The Act does not require the council to treat everyone in the same way; sometimes different treatment is required, for example, be making reasonable adjustments to meet the needs of disabled people.
- 15.10** Consideration of equality issues must influence the decisions reached by public bodies including:
- How they act as employers;
  - How they develop, evaluate and review policy;
  - How they design, deliver and evaluate services, and
  - How they commission and procure from others.
- 15.11** The Brown Principles, established as a result of a legal case concerning Post Offices closures in 2008, provide an important checklist that should be considered when making decisions:
- Decision makers must be made aware of their duty to have due regard to the identified goals;
  - Due regard must be fulfilled before and at the time that a particular decision is being considered, not afterwards;
  - The duty must be exercised in substance, with rigour and with an open mind. It is not a question of ticking boxes;
  - The duty is cannot be delegated; it must be fulfilled by the organisation in question rather than through the use of an external body to do it to the organisation;
  - The duty is a continuing one, and
  - It is good practice to keep an adequate record showing that it has considered the identified needs.

## **16.0 Environmental implications**

- 16.1** Please see the individual savings proposals for details of the environmental implications.

## **17.0 Human resources implications**

- 17.1** The additional reduction in the financial settlement and the need for greater and quicker job reductions across the Council will create more severe human resources implications than originally anticipated. These will arise from accelerated and increased saving proposals and targets, higher volume redundancies and post reductions, and from an increased requirement to reduce other employee costs.
- 17.2** In line with the Council's statutory duties as an employer under the Trade Union and 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. The HR1 covers the current voluntary redundancy and savings proposals which will result in compulsory redundancies. A further HR1 based on additional proposals may be required at a later date.
- 17.3** The impacts of the savings programme with regard to redundancy programme are set out in Section 7.8 above. Reductions in employee numbers will be achieved in line with the Council's HR policies. Compulsory redundancies will be mitigated as far as is possible through seeking voluntary redundancies in the first instance, and through access to redeployment. Given the volume and range of savings being proposed, there will be reductions in services and employee numbers which will require fair and due process to be followed regarding consultation, selection and implementation of any compulsory redundancies. The accelerated timetable for achieving savings in the light of the financial settlement is likely to require the Council as an employer to utilise the statutory 45 day and 30 day consultation periods for some service reductions, rather than the best practice position of allowing, where possible, 90 days.
- 17.4** The Council will ensure that appropriate support is made available to employees who are at risk of and selected for redundancy, and will work with partner and external agencies to provide support. Proposals to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations.
- 17.5** Ongoing consultation with the trade unions on the impact of the financial settlements and the proposals to face the challenges posed by it will be carried out by the Chief Human Resources Officer. This will include as a priority the proposals contained within this report to change the redundancy policy to payments based on the statutory minimum and to amend protocols for providing early access to pensions.

## **18.0 Schedule of background papers**

Budget Strategy 2013/14 and Medium Term Financial Strategy – Cabinet 26 February 2013

Draft Budget Strategy 2014/15 and Medium Term Financial Strategy – Cabinet 24 July 2013

5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19 – Cabinet 23 October 2013

## Medium Term Financial Strategy: Analysis of Changes Since October 2013

	Note	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
<b>Projected Budget Deficit before Savings Proposals – October</b>		<b>26,693</b>	<b>22,240</b>	<b>15,911</b>	<b>18,953</b>	<b>13,762</b>	<b>97,559</b>
<b>Growth</b>							
Pay Related	1	(578)	313	214	8,471	(554)	<b>7,866</b>
Treasury Management	2	(5)	(155)	1,239	(1,092)	(576)	<b>(589)</b>
Demographic and Demand	3	3,500	-	-	-	-	<b>3,500</b>
Inflationary Pressures	4	(660)	(133)				<b>(793)</b>
		<b>2,257</b>	<b>25</b>	<b>1,453</b>	<b>7,379</b>	<b>(1,130)</b>	<b>9,984</b>
<b>Savings</b>							
Removal of Unachievable Historic Savings	5	2,596	-	-	-	-	<b>2,596</b>
Adjust for ongoing receipt of NHS care funding	6	-	(3,000)	-	-	-	<b>(3,000)</b>
Reprofile FutureSpace savings	7	-	-	500	(500)	-	<b>-</b>
		<b>2,596</b>	<b>(3,000)</b>	<b>500</b>	<b>(500)</b>	<b>-</b>	<b>(404)</b>
<b>Corporate Resources:</b>							
Council Tax	8	(7)	(8)	(8)	(9)	(8)	<b>(40)</b>
Revenue Support Grant	9	(1,275)	10,808	1,467	(3,000)	6,000	<b>14,000</b>
Top up grant		387	643	(30)	-	-	<b>1,000</b>
Localised Business Rates		(248)	248				
New Homes Bonus	10	(256)	(442)	1,472	39	108	<b>921</b>
Share of Collection Fund Deficit	11	(300)	300	-	-	-	<b>-</b>
Council Tax Freeze Grant	12	946	(946)	-	-	-	<b>-</b>
		<b>(753)</b>	<b>10,603</b>	<b>2,901</b>	<b>(2,970)</b>	<b>6,100</b>	<b>15,881</b>
<b>Net Change to Projected Budget Deficit before Savings Proposals</b>		<b>4,100</b>	<b>7,628</b>	<b>4,854</b>	<b>3,909</b>	<b>4,970</b>	<b>25,641</b>
<b>Revised Projected Budget Deficit before Savings Proposals</b>		<b>30,793</b>	<b>29,868</b>	<b>20,765</b>	<b>22,862</b>	<b>18,732</b>	<b>123,020</b>

## Explanation of Variances to Medium Term Financial Strategy since October 2013

### Growth:

1. **Pay Related** – these changes now reflect the pension strain costs arising from the redundancy programme (1,137 from the savings proposals) together with the agreed changes to pension costs to reflect the revised contribution rate and deficit recovery payments (£8.9 million). These are partially offset due to revising the estimated pay awards in the latter part of the 5 years downwards slightly (£1.1 million) as set out in Appendix B, and also due to the saving arising from removing essential user lump sum allowances from 1 April 2014 (£900,000), as estimates indicate that this is no longer required to partially offset the impact of single status.
2. **Treasury Management** – these changes reflect the impact of agreed and anticipated revisions to the capital programme over the period of the medium term financial strategy. As well as reflecting updated information on capital receipts and borrowing costs. A prudent projected increase in the level of dividends receivable from Birmingham Airport, of £1.3 million, has also been reflected over this period.
3. **Demographic and Demand** – this change reflects a number of revisions, the most significant of which are an increase of £1 million relating to the pressure arising from the continued increase in the number of Looked After Children and the estimated impact of the structural budget issue relating to non-controllable costs (£2.5 million).
4. **Inflationary Pressures** – this change reflects the reduction in the WMITA levy that has been agreed.

### Savings:

5. **Removal of unachievable historic savings** – this change reflects the estimated structural budget issue across all directorates relating to a number of historic savings values that are unachievable due to their general nature and/or the passage of time and changes in circumstance (£2.6 million).
6. **Adjust for ongoing receipt of NHS funding** – following the establishment of the Better Care Fund the receipt of NHS monies for adult social care will be ongoing, the previous short term savings can therefore be reflected on an ongoing basis.
7. **Reprofile FutureSpace savings** – the change reflects the latest timing of the implementation of the programme.

### Corporate Resources:

8. **Council Tax** - these revised projections, which reflect the latest projected tax base, represent a positive impact on the medium term financial strategy.
9. **Revenue Support Grant** - as detailed within the body of the report the previous projected levels of Revenue Support Grant (RSG) were no longer considered to be prudent, in particular due to the recent Local Government Finance Settlement. As a result the projected levels of RSG have been revised downwards.

- 10. New Home Bonus** – the change reflects the latest provisional figures for New Homes Bonus from the Government and a national forecast for the scheme from LG Futures together with the latest projections from strategic planning.
- 11. Share of Collection Fund Deficit** – this now reflects the projected deficit for 2013/14 that is being reported separately to this meeting of Cabinet.
- 12. Council Tax Freeze Grant** – the change reflects the fact that the Council Tax Freeze Grant has been rolled up into the RSG as part of the latest settlement.

### Budget Preparation Parameters

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

	2014/15 Forecast Budget	2015/16 Forecast Budget	2016/17 Forecast Budget	2017/18 Forecast Budget	2018/19 Forecast Budget
Council Tax Annual Increase (Council element)	2.0%	2.0%	2.0%	2.0%	2.0%
Growth in Council Tax Base	0.5%	0.5%	0.5%	0.5%	0.5%
Pay Awards*	1.0%	1.0%	1.0%	2.0%	2.5%
Price Inflation (excl. Gas, Electricity and NNDR)	0.0%	0.0%	0.0%	0.0%	0.0%
Price Inflation (Gas)	5.7%	5.7%	5.7%	5.7%	5.7%
Price Inflation (Electricity)	2.5%	2.5%	2.5%	2.5%	2.5%
Price Inflation (NNDR)	3.9%	3.9%	3.9%	3.9%	3.9%
Borrowing Interest Rate (PWLB 25 year rate)	4.5%	4.8%	5.1%	5.5%	5.5%
Return on Investments	0.3%	0.3%	0.3%	0.3%	0.3%
NNDR Income Annual Increase	3.6%	3.9%	3.0%	3.0%	3.0%
Growth in NNDR Tax Base	0.1%	0.2%	0.2%	0.2%	0.2%
Increase/(Decrease) in Top-Up Grant	3.6%	3.9%	3.0%	3.0%	3.0%
Increase/(Decrease) in Revenue Support Grant	-16.9%	-28.2%	-13.6%	-18.3%	-23.7%
Increase/(Decrease) in Specific Grant	As notified assuming any future changes will be neutralised with equal and opposite changes to expenditure budgets				

Note the NNDR annual increase remains at RPI even though now capped at 2.0% as the shortfall is to be made up by central government