

Cabinet

19 October 2016

Time 5.00 pm **Public Meeting?** YES **Type of meeting** Executive
Venue Committee Room 2 - 3rd Floor - Civic Centre

Membership

Chair Cllr Roger Lawrence (Lab)
Vice-chair Cllr Peter Bilson (Lab)

Labour

Cllr Claire Darke
Cllr Steve Evans
Cllr Val Gibson
Cllr Milkinderpal Jaspal
Cllr Andrew Johnson
Cllr John Reynolds
Cllr Sandra Samuels
Cllr Paul Sweet

Quorum for this meeting is five Councillors.

Information for the Public

If you have any queries about this meeting, please contact the democratic support team:

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Wolverhampton WV1 1RL

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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

- 1 **Apologies for absence**
- 2 **Declaration of interests**
- 3 **Minutes of the previous meeting - 14 September 2016** (Pages 3 - 8)
[For approval]
- 4 **Matters arising**
[To consider any matters arising from the minutes of the previous meeting]

DECISION ITEMS (AMBER - DELEGATED TO THE CABINET)

- 5 **Financial Plan and Efficiency Strategy** (Pages 9 - 44)
[To review the Council's draft Financial Plan and Efficiency Strategy prior to its consideration for approval by Full Council on 9 November 2016]
- 6 **Draft Budget and Medium Term Financial Strategy 2017/18 - 2019/20** (Pages 45 - 74)
[To receive an update on progress towards identifying additional opportunities to address the projected £22.2 million budget deficit for 2017/18 and to seek approval to progress the budget reduction and income generation proposals to the formal budget consultation and scrutiny stages of the budget process]
- 7 **100% Business Rates Retention Pilot** (Pages 75 - 82)
[To receive an update on the 100% Business Rates Retention Pilot and to approve participation in the pilot from April 2017]

Meeting of the Cabinet

Minutes - 14 September 2016

Attendance

Members of the Cabinet

Cllr Roger Lawrence (Chair)
Cllr Peter Bilson (Vice-Chair)
Cllr Claire Darke
Cllr Steve Evans
Cllr Val Gibson
Cllr Milkinderpal Jaspal
Cllr Andrew Johnson
Cllr John Reynolds
Cllr Sandra Samuels
Cllr Paul Sweet

Employees

Dereck Francis	Democratic Support Officer
Keith Ireland	Managing Director
Ros Jervis	Service Director - Public Health and Wellbeing
Tim Johnson	Strategic Director - Place
Linda Sanders	Strategic Director - People
Mark Taylor	Director of Finance

Part 1 – items open to the press and public

- | <i>Item No.</i> | <i>Title</i> |
|-----------------|--|
| 1 | Apologies for absence
No apologies for absence were received for the meeting. |
| 2 | Declaration of interests
No declarations of interests were made. |
| 3 | Minutes of the previous meeting - 20 July 2016
Resolved:
That the minutes of the previous meeting held on 20 July 2016 be approved as a correct record and signed by the Chair. |
| 4 | Matters arising
There were no matters arising from the minutes of the previous meeting. |

5 **Adoption of the Wolverhampton City Centre area action plan**

Cllr John Reynolds presented a report on the final stages of production of the Wolverhampton City Centre Area Action Plan (AAP). He proposed that the AAP be referred to Council for adoption when it would form part of the adopted Local Plan for Wolverhampton and would be used to determine planning applications in the AAP area following a six week legal challenge period.

Resolved:

That Council be recommended to adopt the Wolverhampton City Centre Area Action Plan.

6 **Outcome of the Local Government Association Finance Peer Review - June 2016**

Cllr Andrew Johnson presented a report on the outcome of the recent Local Government Association (LGA) Finance Peer Review. He placed on record his thanks to Mark Taylor, Director of Finance and the Corporate Finance Team for the work they had done in putting together the action plan in response to the Peer Review recommendations and for the manner in which they responded to the LGA Review Team which had led to the good review report.

Cllr Johnson also reported that the Peer Review report made reference to it being timely for the Council to take stock and reflect on its overall financial strategy. He suggested that the Confident, Capable Council Scrutiny Panel be asked to consider this point and present their findings to Cabinet.

Resolved:

1. That the draft action plan arising from the recommendations within the Local Government Association Finance Peer Review final report be approved.
2. That the outcome and issues raised in the Local Government Association Finance Peer Review final report be noted.
3. That it be noted that a workshop had been planned with Grant Thornton for 9 September to provide an external challenge to the Council's action plan.
4. That it be noted that the report would also be considered by the Confident, Capable Council Scrutiny Panel on 14 September 2016.
5. That the Confident, Capable Council Scrutiny Panel be recommended to review the Council's overall financial strategy and present their observations and recommendations to Cabinet.

7 **Children and Young People's participation strategy**

Cllr Val Gibson presented a report on the Children and Young People's participation strategy. The strategy report set out the Council's commitment to the importance of effective participation of children and young people in the services that affect them. It also included clear standards of participation for children and young people to ensure that it was not tokenistic and remained relevant.

Resolved:

1. That the three year Children and Young People's Participation Strategy be approved.

2. That the Council's commitment to children and young people having influence over decisions and actions on services that affect them be endorsed.

8 **Director of Public Health annual report 2015/16**

Cllr Paul Sweet presented the Director of Public Health's annual report for 2015/16 which illustrated Public Health related changes in the Wolverhampton population and place over the last 150 years. Under the Health and Social Care Act 2012 the local authority was required to publish the annual report.

Resolved:

That the publication of the Director of Public Health annual report for 2015/16 be approved.

9 **Safer Wolverhampton Partnership annual report**

Cllr Paul Sweet presented a report on a summary of the Safer Wolverhampton Partnership annual report detailing progress against its strategic plan and performance. The annual report also detailed services commissioned using the annual allocated grant from the Office for Policing and Crime against which it is required to produce quarterly expenditure and outcome reports.

Resolved:

That the Safer Wolverhampton Partnership Annual Report 2015-16 be endorsed and the identified areas for development contained in the annual report be supported.

10 **Exclusion of press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraphs 1 and 3 of Schedule 12A of the Act

Part 2 – exempt items, closed to the press and public

11 **WV Living detailed business plan phase 1**

Cllr Peter Bilson presented a report seeking approval to phase 1 of WV Living's (the Council's Housing Company) detailed business plan to commence trading and delivering new housing for sale and market rent.

Resolved:

1. That Council be recommended to approve an increase to the Council's Capital Programme by up to a maximum of £40 million for loans to WV Living to be repaid to the Council in accordance with the provisions of the business plan.
2. That the detailed business plan for WV Living (the Council's Housing Company) for 2016 – 2017 be approved, including:
 - i. The detailed financial plan
 - ii. The updated risk register
 - iii. The key terms of the shareholder agreement between the Council and WV Living
 - iv. The key terms of the Loan agreement between the Council and WV Living

3. That loans from the Council to WV Living up to a total value of £40 million to cover the acquisition/land costs of the first phase of development secured by a legal charge be approved.
4. That a loan from the Council to WV Living up to £1 million to cover the company's running costs over the initial few years of operation to be funded from the efficiency reserve or through equity funding be approved.
5. That Housing Services incur pre-acquisition costs on behalf of the company until March 2017 up to £750,000 funded from the Regeneration Reserve.
6. That the detailed Shareholder Agreement between the Council and WV Living be delegated to the Cabinet Members for City Assets and Housing and Resources in conjunction with the Managing Director and the Director of Finance (Section 151 Officer).
7. That detailed loan agreements and the execution of any loan agreements or other financial instruments between the Council and WV Living be delegated to the Cabinet Members for City Assets and Housing and Resources in conjunction with the Managing Director and the Director of Finance (Section 151 Officer).
8. That the entering into of any ancillary agreements or documents between the Council and WV Living arising out of the funding to WV Living be delegated to the Cabinet Members for City Assets and Housing and Resources in conjunction with the Managing Director and the Director of Finance (Section 151 Officer).
9. That the Council will act as guarantor for contracts entered into by WV Living where appropriate.
10. That the Council bids for Help to Buy grant funding, along with delegated authority to the Cabinet Member for City Assets and Housing in consultation with the Strategic Director for Housing to enter into a contract with the Homes and Communities Agency to accept the grant funding, and bid for future phases of Help to Buy grant funding as necessary.
11. That the authority to approve the final financial strategy for providing loans and equity to the Company be delegated to the Cabinet Member for Resources in conjunction with the Director of Finance.
12. That it be noted that in accordance with the resolution of Cabinet following its meeting on 20 July 2016 WV Living would commence trading as soon as possible after the approval of the detailed business plan, subject to that business plan continuing to be viable.
13. That it be noted that further detailed business plans for future years would be brought before the Council for consideration and approval.

14. That it be noted that the impact of the report on Treasury management, prudential indicators and MRP policy would be reflected in the Treasury Management activity monitoring 2016/17 mid-year review report to Cabinet in November 2016.

12

Human Resources

Cabinet received, for information, a report on a recommendation from the Special Appointments Committee to Full Council on the appointment of David Watts as Service Director, Adults.

Resolved:

That the recommended from the Special Appointments Committee to Full Council on the appointment of David Watts as Service Director, Adults on the council's senior management terms and conditions be noted.

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Cabinet Meeting

19 October 2016

Report title	Financial Plan and Efficiency Strategy	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	No	
In forward plan	No	
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 Full Council	11 October 2016 09 November 2016

Recommendation for action:

The Cabinet is recommended to approve:

1. The delegation of authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to agree the final amendments to the Financial Plan and Efficiency Strategy prior to presentation to Full Council in November, where approval for publication will be sought.

Recommendation for noting:

The Cabinet is asked to note:

1. That the draft version of the Financial Plan and Efficiency Strategy is attached at Appendix A for consideration.

2. That the submission to the Secretary of State has now been made for the four year settlement. Confirmation of the Council's submission has been received and we are now awaiting further details from the Department of Communities and Local Government.

1.0 Purpose

- 1.1 The purpose of this report is to enable Cabinet to review the Council's draft Financial Plan and Efficiency Strategy before its consideration for approval by Full Council on 9 November 2016.
- 1.2 The updated Financial Plan and Efficiency Strategy provides further evidence to support the Council's submission for a four year central government funding settlement which will enable the authority to operate with increased financial certainty in the medium term.

2.0 Background

- 2.1 On 20 July 2016, Full Council approved that the 2016/17 Budget and Medium Term Financial Strategy 2016/17 - 2019/20 should form the basis of the Council's Efficiency Strategy subject to any appropriate drafting amendments, in order to sign up to the four year settlement.
- 2.2 Full Council also approved the delegation of authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the final four year settlement submission.
- 2.3 Full Council was also asked to note that an updated Financial Plan and Efficiency Strategy would be presented to Cabinet in October and to Full Council in November and approval will be sought for publishing.

3.0 Summary

- 3.1 The Financial Plan and Efficiency Strategy sets out the medium term financial forecasts for the Council, and the context in which these forecasts are made in terms of service and investment priorities, stakeholder engagement and resource constraints and opportunities.
- 3.2 The document complements the Council's Budget and Medium Term Financial Strategy and provides further evidence to support the Council's request to central government for a four year funding settlement to 2019/20.
- 3.3 The Council has produced and published a similar document on a regular basis in previous years in the form of an annual Financial Plan.
- 3.4 Cabinet are asked to note that the latest draft version of the Financial Plan and Efficiency Strategy is attached at Appendix A for consideration.
- 3.5 It is recommended that Cabinet delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to agree the final amendments to the Financial Plan and Efficiency Strategy prior to presentation to Council in November, where approval for publication will be sought.
- 3.6 As stated in paragraph 2.2 above, Full Council delegated authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the final

four year settlement submission to the Secretary of State which would provide the Council with indicative core government grant allocations for 2017/18 to 2019/20, to cover the Parliamentary period. It is important to note that the submission to the Secretary of State has now been made. Confirmation of the Council's submission has been received and we are now awaiting further details from the Department of Communities and Local Government.

4.0 Financial Implications

- 4.1 The Financial Plan and Efficiency Strategy is a concise public document which summarises the Council's medium term financial plans and efficiency strategy.
[MH/11102016/]

5.0 Legal Implications

- 5.1 The Council's budgets make assumptions which must be based on realistic projections of available resources, service priorities and inherent risks.
- 5.2 The legal duty to spend with propriety falls under section 151 of the Local Government Act 1972 and the arrangements for the proper administration of a Council's affairs is secured by the section 151 officer as the 'Chief Financial Officer'.
[RB/14092016/Q]

6.0 Equalities implications

- 6.1 There are no direct equalities implications arising as a result of this report.

7.0 Environmental implications

- 7.1 There are no direct environmental implications arising as a result of this report.

8.0 Human resources implications

- 8.1 There are no direct human resources implications arising as a result of this report.

9.0 Corporate landlord implications

- 9.1 There are no direct corporate landlord implications arising as a result of this report.

10.0 Schedule of Background Papers

- 10.1 2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20, report to Cabinet, 24 February 2016.

2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20, report to Cabinet, 2 March 2016.

Council Efficiency Strategy and Four Year Settlement, report to City Council, 20 July 2016.

Financial Plan and Efficiency Strategy

Reflecting local priorities
as we plan for the future





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1. Forward

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

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

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

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



Councillor Roger Lawrence

Leader of the Council



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

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

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

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



Keith Ireland
Managing Director



2. Executive Summary

General Services Revenue Budget

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

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

There are two main reasons for this deficit:

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

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

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

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

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

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





Westside Development

General Services Capital Budget

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

Major investments over the medium-term include:

i10 Office and Commercial Building

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

i54 Business Park

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

Wolverhampton Interchange

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

Bilston Urban Village

The Regeneration of Bilston town centre including infrastructure, services and remediation

work to bring major new residential and employment opportunities.

Civic Halls and Grand Theatre

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

Westside Development

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

Primary Schools Expansion Programme

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

Housing Budget

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

3. The Financial Plan and Efficiency Strategy Context and Development

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

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

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

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

The Financial Plan and Efficiency Strategy in context

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

1. Overarching economic conditions

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

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

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

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

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

2. Government spending cuts and controls

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

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

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

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

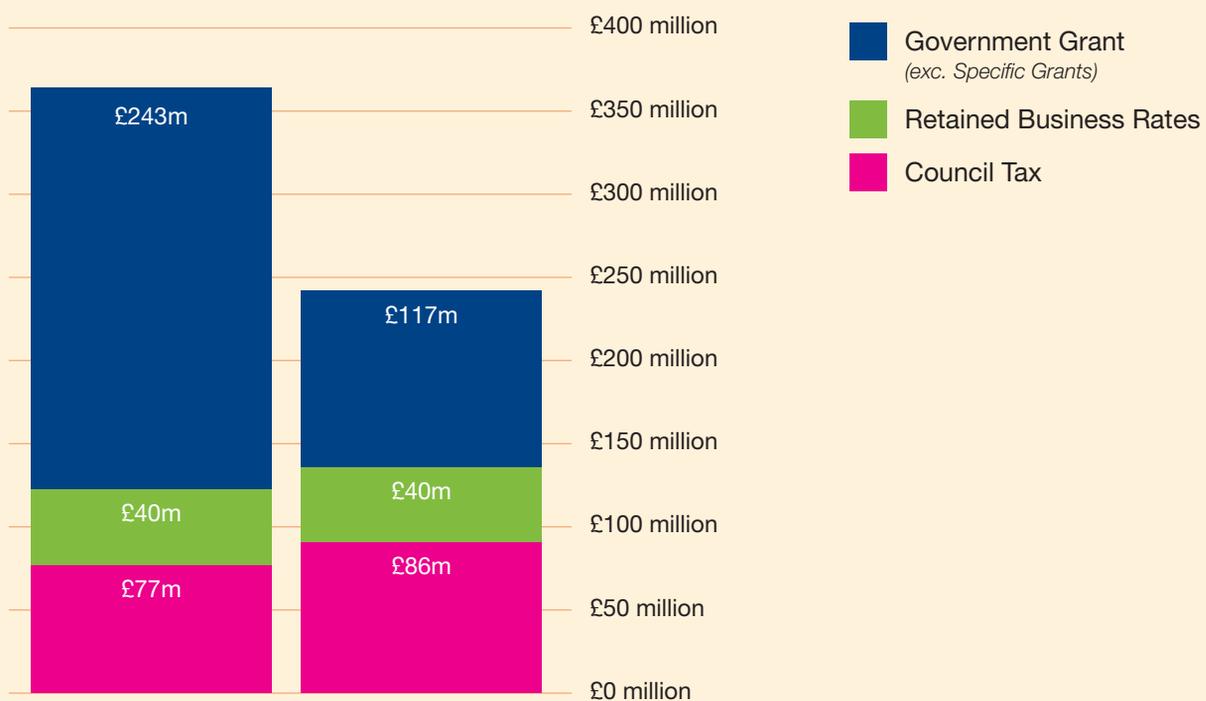
During the six-year comparison period shown in the chart below, the government’s general grant

funding methodology, together with some of the services for which local government is responsible, have changed.

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

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

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



3. Social and demographic factors

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

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

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

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

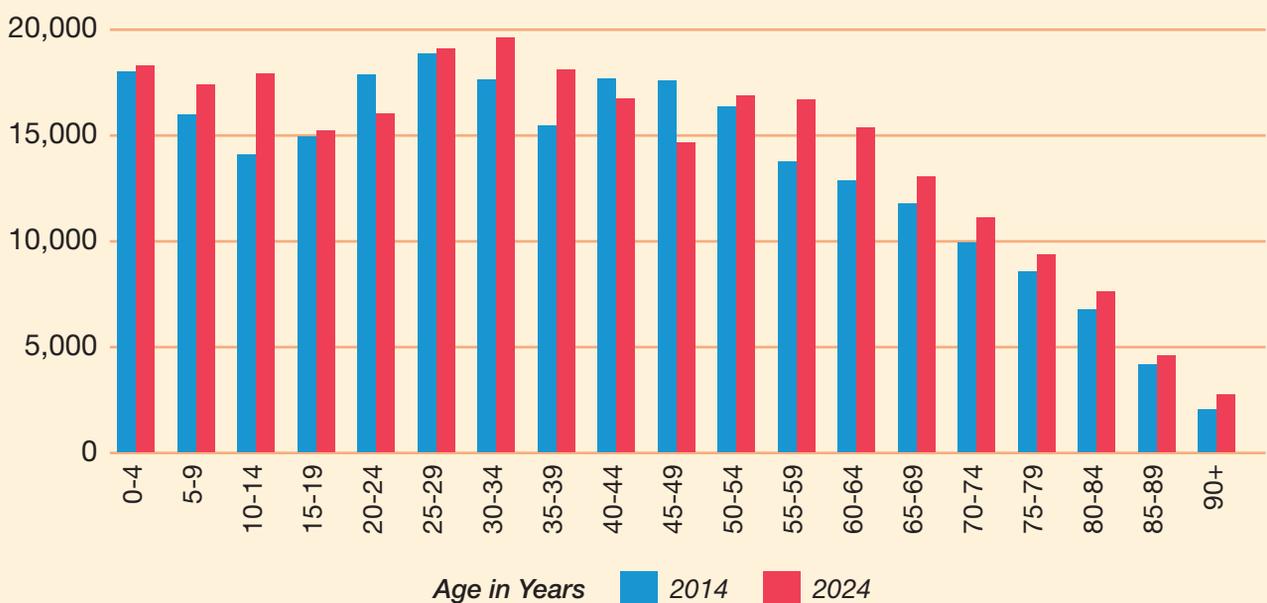
Other significant local factors include relatively high levels of unemployment and worklessness, which also increase demand for council services.

Consultation and equalities

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

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

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





Dudley Street, Wolverhampton

Budget development principles

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

The Council manages its budgets corporately – in other words, where it can, it will redirect money from one service to another in order to match limited and changing resources to the Council's highest priorities. Up to now, the Council has tried to safeguard those services that it considers to be highest priority. However, due to the scale of the budget cuts it is becoming virtually impossible to exempt any part of the Council's service from the need to find

budget reductions. All managers have been required to find more efficient means of delivering their services as well as increasing income generation opportunities. This has meant major reductions in the Council workforce. Due to the scale of the challenges it has been, and will increasingly become, necessary to reduce the level of Council service provision in some areas.

Development of the Financial Plan and Efficiency Strategy

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

Annual Budget Setting Cycle

April

Previous year's accounts are closed.

May

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

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

July

Previous year's Outturn is reported to Cabinet.

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

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

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

August

Budget reduction and income generation proposals continue to be developed.

September

Consider implications of new budget reduction and income generation proposals.

October

Cabinet consider Fees and Charges Report.

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

Formal Budget Consultation starts.

November

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

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

Review assumptions in MTFS for inclusion in December Cabinet report.

Calculate forecasts for council tax and business rates income.

December

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

Central government issues provisional settlement details for following financial year.

January

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

Cabinet note Forecast Collection Fund Outturn.

Cabinet approves the council tax base.

Cabinet receives outcomes of Budget Consultation.

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

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

February

Central government issues final settlement details for following financial year.

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

Cabinet approves the Final Budget Report.

March

Full Council votes on budget and council tax.

4. General Services Budget 2016/17

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



empty
44,000
bins | caddies
per day

at an annual cost of
£8.2 million



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

at an annual cost of
£2.6 million



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

at an annual cost of
£9.5 million

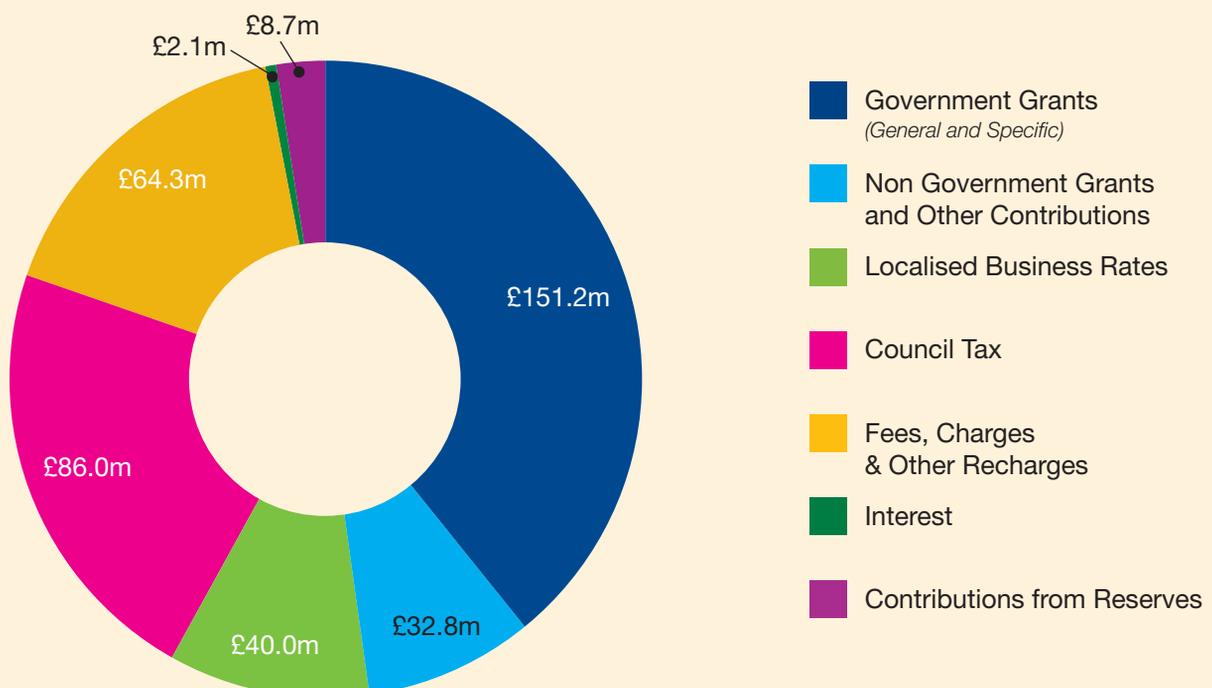


have
2,547
leisure centre
visitors per day

at an annual cost of
£1.3 million

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

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



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

Government Grants (General and Specific)

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

Non-Government Grants and Other Contributions

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

Localised Business Rates

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

Council Tax

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

Fees, Charges and Other Recharges

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

Interest

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

Contributions from Reserves

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

For 2016/17, the Council has continued to build on its recent strong record of identifying and achieving the necessary budget reductions enforced by central government and has set a

budget to spend over £385 million of income on General Services for the year.

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

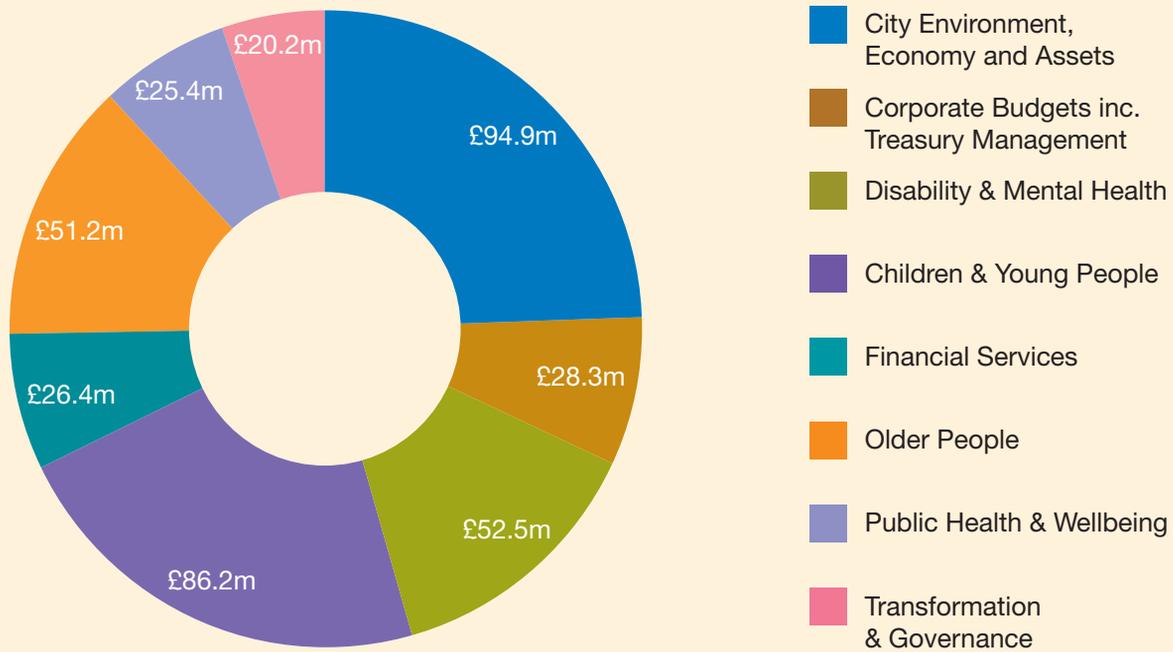
Aligning Corporate Priorities and Resources

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

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

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

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



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

City Environment, Economy and Assets

Transportation, planning, economic development, markets and waste and recycling services.

Corporate Budgets

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

Disability and Mental Health

Assessment and care management and special educational needs.

Children and Young People

Child protection, looked after children and youth offending services.

Financial Services

Revenues and benefits, strategic financial and audit services.

Older People

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

Public Health and Wellbeing

Public health, health protection and community safety.

Transformation and Governance

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

5. General Services Medium Term Projections

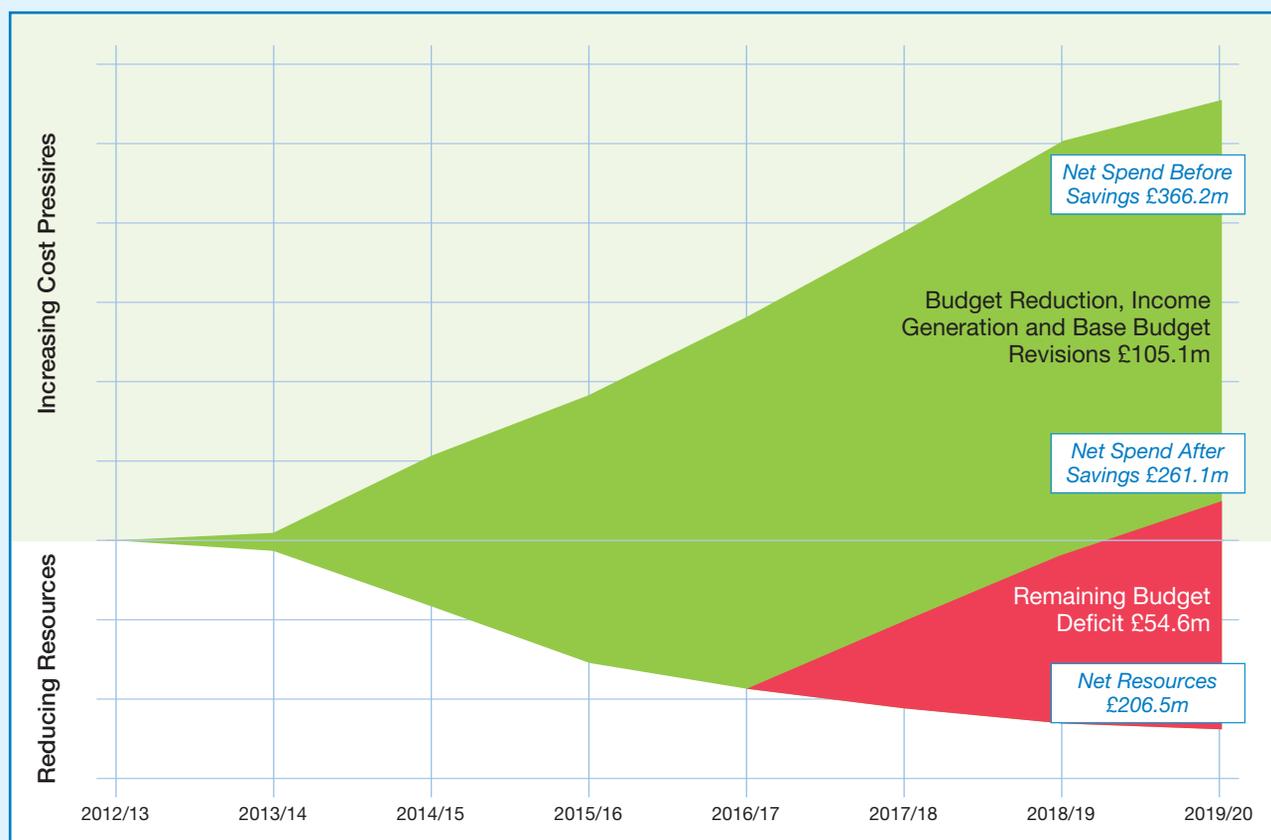
Since 2011/12, the Council has reduced its annual budget by over £175 million. Despite this, the latest projections show that there is still more to do and our current projections predict that if we take no further action by 2019/20, there will still be a £54.6 million shortfall in our resources, when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

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

	2016/17	2017/18	2018/19	2019/20
£ thousands				
Previous Years Net Budget Brought Forward	224,875	217,350	234,461	251,125
Increasing Cost Pressures	(7,525)	17,111	16,664	10,031
Net Budget	217,350	234,461	251,125	261,156
Projected Corporate Resources	(217,350)	(212,269)	(208,799)	(206,518)
Projected Cumulative Budget Deficit	0	22,192	42,326	54,638

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

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





The Art Gallery, Lichfield Street, Wolverhampton

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

In particular, the LGA commented that:

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

- The components of the financial strategy including commercialisation and demand management are consistent with practice in the sector.
- It is now timely to reflect on the strategy, approach and pace in light of the current position and future aspirations.

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

Balances and Reserves

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

Our in year revenue budget monitoring for 2016/17 has indicated that, as with 2015/16, spend will be in line with the overall budget. The

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

The Future Budget Strategy

The Council recognises that having taken out over £175 million out of its annual budget over the past six years, it is extremely unlikely that any further major budget reductions can be made solely through efficiencies. During the early part of 2016/17, intense work has taken place to identify further budget reduction, income generation and base budget revisions for

2017/18 and significant progress has been made to date. This work is cyclical and the latest formal consultation on the budget will take place from 24 October 2016 to 15 January 2017.

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

Managing risks

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

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

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



6. Capital Investment Strategy

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

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

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

Capital Investment

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

i10 Office and Commercial Building:

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

i54 Business Park:

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

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

investments that will have a direct impact upon Wolverhampton include:

Wolverhampton Interchange:

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

Bilston Urban Village:

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

Civic Halls and Grand Theatre:

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

Westside Development:

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

Primary Schools Expansion Programme:

The Council has approved £33.7 million of investment between 2015/16 and 2018/19 to

meet predicted demand for school places in coming years. This will complement the significant investment of over £200 million via the Building Schools for the Future programme to help develop a world class educational environment for our young people.

Digital Transformation:

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

Our Vision for the City of Wolverhampton in 2030

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



7. Treasury Management Strategy



The New i10 Development on Railway Drive, Wolverhampton

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

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

Borrowing and Investments

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

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

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

8. Housing Budget



Housing development at Lawnside Green, Wolverhampton

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

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

Housing - the 30 Year Business Plan

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

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

Housing Revenue

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

In the Chancellor's budget of July 2015, it was announced that all council dwelling rents would reduce by 1% each year from 1 April 2016 for

the next four years to 2020. The proposed 1% reduction will be mandatory once legislation is enacted. In Wolverhampton, a 1% reduction in dwelling rents each year for the next four years compounds to an overall reduction of 12%. Over the 30 year lifetime of the business plan this equates to £622 million shortfall in income based upon previous projections.

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

The previous HRA business plan was predicated on the principle that rents will rise year on year by the Consumer Price Index (CPI) plus 1%, using the government's assumptions on future rates of inflation. After the proposed 1% reduction in

rents for the next four years the proposed plan returns to the assumption that rents will rise by CPI plus 1% and a CPI rate of 2%.

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

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

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

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

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

Housing Capital

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

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

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

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



The first of 100 houses to be built in Wolverhampton for thirty years at Thompson Avenue

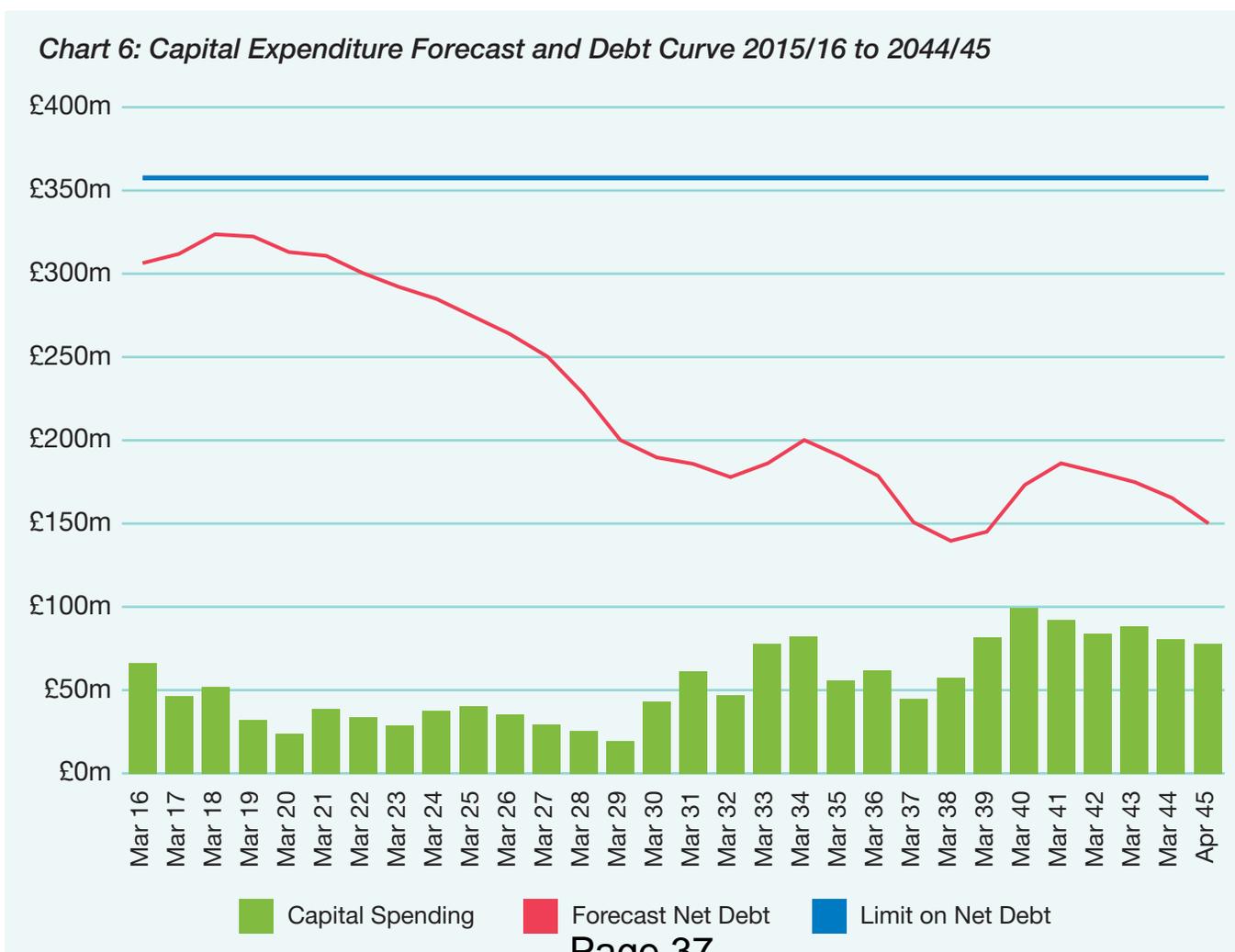


Home improvements to homes in Vicarage Road, Wolverhampton

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

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

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





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

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

Managing risks

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

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

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

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

9. Strategy Summary

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

- **Revenue Budget Strategy**

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

- **Capital Investment Strategy**

The Capital Investment Strategy sets out the plans to invest over £200 million in the City over the next five years together with the

funding to support that investment. Despite the financial challenge and constraints, the Council is committed to investing in the future.

- **Treasury Management Strategy**

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

- **Housing 30-Year Business Plan**

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



10. Technical Terms Explained

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

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

Arm's Length Management Organisation

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

Balances and Reserves

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

Budget

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

Business Rates

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

Cabinet

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

Capital Expenditure

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

Capital Grant

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

Capital Programme

The plan of approved capital expenditure.

Council Tax

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

Council Tax Reduction

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

Dedicated School Grant

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

Deficit

This occurs when spending exceeds income.

Equality Analysis

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

Financial Year

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

Full Council

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

General Services Budget

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

Government Grants

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

Growth Deals

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

Housing Benefit

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

Housing Budget

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

Housing Capital Account

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

Minimum Revenue Provision (MRP)

A minimum amount set by law, which the Council must charge to the General Services revenue account, to set aside to repay borrowing.

Prudential Indicators

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

Revenue Expenditure

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

Ring-fenced Budget/Grant

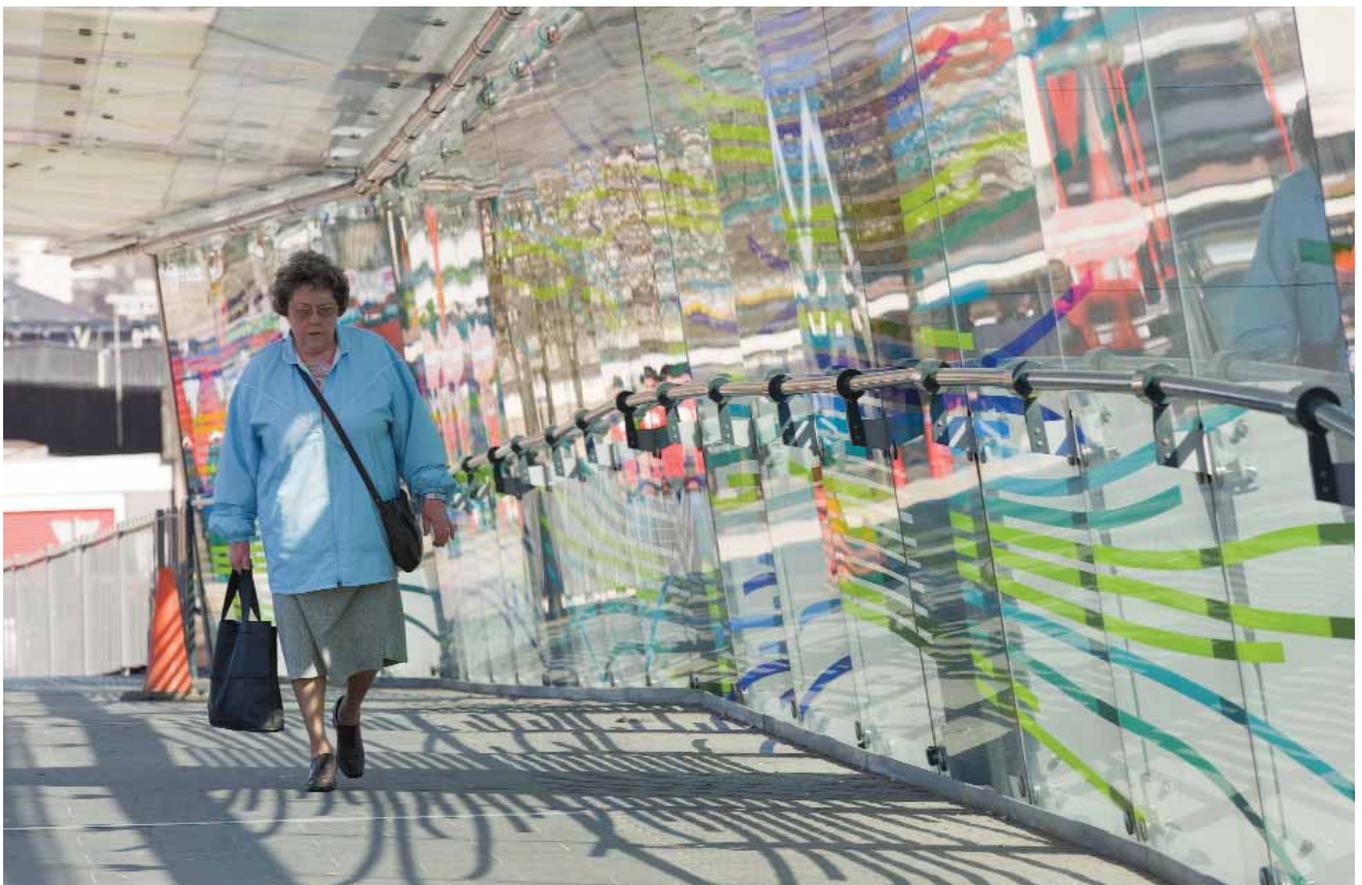
Certain budgets or grants must be maintained separately outside of the General Services account.

Stakeholder

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

Treasury Management

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



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

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

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

Treasury Management Strategy 2016/17

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

Council Tax Formal Resolutions

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



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City of Wolverhampton Council, Civic Centre, St. Peter's Square,
Wolverhampton WV1 1SH

Cabinet Meeting

19 October 2016

Report title	Draft Budget and Medium Term Financial Strategy 2017/18 – 2019/20	
Decision designation	AMBER	
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	Director of Finance
	Tel	01902 554410
	Email	mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	11 October 2016
	Adults and Safer City Scrutiny Panel	5 December 2016
	Children, Young People and Families Scrutiny Panel	7 December 2016
	Confident Capable Council Scrutiny Panel	16 November 2016
	Health Scrutiny Panel	24 November 2016
	Scrutiny Board	13 December 2016
	Stronger City Economy Scrutiny Panel	22 November 2016
	Vibrant and Sustainable City Scrutiny Panel	1 December 2016

Recommendations for decision:

That Cabinet is recommended to approve:

1. That budget reduction and income generation proposals amounting to £13.5 million in 2017/18 proceed to the formal consultation and scrutiny stages of the budget process.

2. That Financial Transaction and Base Budget Revisions totalling a net reduction of £10.0 million in 2017/18 be incorporated into the 2017/18 draft budget.
3. That authority be delegated to the Cabinet Member for Resources in consultation with the Director of Finance to explore the option of making further pension contributions to the West Midlands Pension Fund in 2017/18, in order to reduce the total costs and secure on-going budget reductions to support the budget challenge that the Council will face in future years
4. The removal of the previously approved 'Restructuring of the Library Service' budget reduction totalling £500,000 in the Medium Term Financial Strategy in 2017/18 to allow the development of a five year libraries strategy which will be informed by engagement and consultation, as recommended by the Libraries Peer Review.
5. The re-profile of the previously approved 'Children's Services Re-design' budget reduction; to delay £375,000 of the budget reduction from 2017/18 to 2018/19 in the Medium Term Financial Strategy to allow the Children's Service Re-design to be fully embedded.
6. The re-profile of the previously approved 'Reconfiguration of the Residual Waste Collection Service' budget reduction by £500,000 from 2017/18 to 2018/19 in the Medium Term Financial Strategy, whilst the review household waste and recycling centres is undertaken.
7. The further re-profile of £600,000 from 2017/18 to 2018/19 (£300,000) and 2019/20 (£300,000) of the 'Review of Waste and Recycling' budget reduction which was presented to Cabinet in July 2016, to reflect a potential implementation date of June 2017.
8. The removal of the 'Re-provision of Staff Counselling Service' budget reduction proposal totalling £20,000 in 2017/18, which was presented to Cabinet in July 2016, due to the outcome of the procurement exercise, which attracted no tender submissions.
9. That authority be delegated to the responsible Cabinet Member and the Cabinet Member for Resources, in consultation with the responsible Director and the Director of Finance to implement financial transactions and base budget revisions at the earliest opportunity where the proposal is not reliant on the outcome of formal budget consultation.
10. That authority be delegated to the Cabinet Member for Resources in consultation with the Director of Finance to approve the final budget consultation arrangements.

Recommendations for noting:

That Cabinet is asked to note:

1. That the 2016/17 Budget and Medium Term Financial Strategy (MTFS) 2016/17 - 2019/20 was presented to Full Council for approval on 2 March 2016. After updating the MTFS for changes in assumptions and the outcome of the Local Government Finance Settlement, the Council was able to set a balanced budget for 2016/17 without the use of general fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £54.6 million by 2019/20.
2. That the updated projected deficit already assumes the achievement of previously agreed budget reduction and income generation proposals amounting to £37.4 million over the four year period to 2019/20. Having identified budget reductions in excess of £175 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.
3. That since the 2016/17 budget was set, detailed work has been in progress across all areas of the Council to identify opportunities to deliver the £22.2 million projected budget deficit for 2017/18.
4. That an initial review of the assumptions and projections built into the Draft Budget and MTFS 2017/18 - 2019/20 has been undertaken, with further work to be completed during the 2017/18 budget setting process. The review of projections includes assessing the option for making further pension contributions to the West Midlands Pension Fund in order to secure on-going budget reductions, in addition to assessing the successful delivery of previously approved proposals.
5. That due to a range of external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council. Specific known issues including the Apprenticeship Levy, the Improved Better Care Fund Government funding and the West Midlands Combined Authority are currently being investigated. An update on any impact that these factors have on the MTFS will be reported in due course to Cabinet.
6. That work continues to identify additional budget reduction and income generation opportunities to address the projected budget deficit in 2018/19 and 2019/20, amounting to £30.4 million, in order to ensure that a balanced budget can be set over the medium term. An update on progress will be provided to Cabinet in the 2017/18 budget report presented to Councillors in February 2017.
7. That the submission to the Secretary of State has now been made for the four year settlement. Confirmation of the Council's submission has been received and we are now awaiting further details from the Department of Communities and Local Government.

8. That the Council's General Fund Balance remains at £10.0 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis therefore continues to be placed on identifying budget reductions and income generation proposals to meet the projected budget deficit over the medium term.
9. That the 2017/18 budget timetable will, as in previous years, include updated reports presented to Cabinet in January 2017 detailing the outcome of the Provisional Local Government Settlement and the budget consultation and scrutiny, with the final budget report due to be presented to Cabinet in late February and then Full Council in March 2017 for final approval.
10. The overall level of risk associated with the Draft Budget and Medium Term Financial Strategy 2017/18 to 2019/20 continues to be assessed as Amber.

1.0 Purpose

- 1.1 The purpose of this report is to provide Councillors with an update on progress towards identifying additional opportunities to address the projected £22.2 million budget deficit for 2017/18. The proposals that were initially reported to Cabinet in July 2016 have been further developed in recent months.
- 1.2 This report seeks Cabinet approval to progress the budget reduction and income generation proposals to the formal budget consultation and scrutiny stages of the budget process.
- 1.3 This report is the second of the financial year on the budget and Medium Term Financial Strategy (MTFS) and provides an update on some key factors, the timetable for the budget process and the risks in relation to them.

2.0 Background and Summary

- 2.1 The 2016/17 Budget and Medium Term Financial Strategy (MTFS) 2016/17 - 2019/20 was presented to Full Council for approval on 2 March 2016. After updating the MTFS for changes in assumptions and the outcome of the Local Government Finance Settlement, the Council was able to set a balanced budget for 2016/17 without the use of General Fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £54.6 million by 2019/20.
- 2.2 It is important to note that the projected deficit already assumes the achievement of previously agreed budget reduction and income generation proposals amounting to £37.4 million over the four year period to 2019/20. Having identified budget reductions in excess of £175 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.
- 2.3 In March 2016, Full Council approved that work started immediately to identify opportunities to deliver the £22.2 million projected budget deficit in 2017/18, with an update on progress to be reported to Cabinet in July 2016.
- 2.4 At this point, it was also projected that a further £32.4 million of budget reduction and income generation opportunities needed to be identified, over and above the target for 2017/18, in order to address the projected budget deficit over the medium term to 2019/20. The 2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20 presented to Cabinet in February 2016, assured Councillors that a high level strategy for tackling the budget deficit over the medium term would be included in the July update report.
- 2.5 It should be noted that due to a range of external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council. Specific known issues including the Apprenticeship Levy, the Improved

Better Care Fund Government funding and the West Midlands Combined Authority are currently being investigated. An update on any impact that these factors have on the MTFs will be reported in due course to Cabinet.

- 2.6 Since the 2016/17 budget was set, detailed work has been in progress across all areas of the Council to identify budget reduction and income generation targets to deliver the £22.2 million budget deficit for 2017/18.
- 2.7 An update on budget reduction and income generation targets that had been identified during the first three months of this financial year was presented to Cabinet on 20 July 2016. The identified targets totalled £21.9 million for 2017/18. This represented significant progress towards identifying the projected £22.2 million budget deficit for 2017/18. Work has continued during the second quarter of 2016/17 to develop those budget reduction and income generation targets into detailed proposals, and to identify further possibilities to deliver the remaining target required to meet the budget deficit for 2017/18.
- 2.8 In addition to this, an initial review of the assumptions and projections built into the Draft Budget and MTFs 2017/18 - 2019/20 has been undertaken, with further work to be completed during the 2017/18 budget setting process. The review of projections includes assessing the option for making further pension contributions in order to secure on-going budget reductions, in addition to assessing the successful delivery of previously approved proposals. Further details are provided in Section 3.
- 2.9 The new opportunities for 2017/18 have been further classified into:
- (i) Budget Reduction and Income Generation proposals upon which the outcome of formal budget consultation is required
 - (ii) Financial Transactions and Base Budget Revisions which can be implemented without reliance on the outcome of formal budget consultation
- 2.10 In total, the Council has identified £13.5 million Budget Reduction and Income Generation proposals, and £10.0 million Financial Transactions and Base Budget Revisions for 2017/18. Further details are provided in Section 4.
- 2.11 Work continues to identify additional budget reduction and income generation opportunities to address the projected budget deficit in 2018/19 and 2019/20, amounting to £30.4 million, in order to ensure that a balanced budget can be set over the medium term. An update on progress will be incorporated into the final budget report, to be presented to Cabinet in February 2017

3.0 Update to Medium Term Financial Strategy Assumptions

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

Budget Reduction and Income Generation Revisions

- 3.2 In addition to identifying new budget reduction and income generation opportunities, a review of the successful delivery of savings has also been considered. As a result of this, Cabinet approval is sought to remove the previously approved 'Restructuring of the Library Service' budget reduction totalling £500,000 in 2017/18 to allow the development of a five year libraries strategy which will be informed by public and stakeholder engagement and consultation, as recommended by the Libraries Peer Review. Any budget reduction generated as a result of the option identified will be reported to Councillors and incorporated into the MTFS at the point it is known.
- 3.3 In order to allow the Children's Service Re-design to be fully embedded into the organisation, Cabinet approval is sought to delay £375,000 of the previously approved 'Children's Service Re-design' budget reduction from 2017/18 to 2018/19 in the MTFS.
- 3.4 Furthermore, whilst the review of the household waste and recycling centres is undertaken Cabinet approval is sought to re-profile £500,000 of the previously approved 'Reconfiguration of the Residual Waste Collection Service' budget reduction from 2017/18 to 2018/19 in the Medium Term Financial Strategy.
- 3.5 Cabinet approval is also sought for the further re-profile of £600,000 from 2017/18 to 2018/19 (£300,000) and 2019/20 (£300,000) of the 'Review of Waste and Recycling' budget reduction which was presented to Cabinet in July 2016, to reflect a potential implementation date of June 2017.
- 3.6 In addition to this, it is proposed that Cabinet approve the removal of the 'Re-provision of Staff Counselling Service' budget reduction totalling £20,000 in 2017/18, which was presented to Cabinet in July 2016, due to the outcome of the procurement exercise, which attracted no tender submissions.
- 3.7 The overall impact of the revisions to the 2017/18 draft budget, arising as a result of the items detailed in the paragraphs above, in addition to the budget reduction, income generation and base budget revisions, as detailed in Section 4 below, have been reflected in Appendix A.

4.0 Proposals for 2017/18

4.1 Since the last update to Cabinet in July 2016, further detailed work has continued to take place to develop the proposals reported to Cabinet at that point in time, in addition to identifying new possibilities to deliver the remaining budget deficit for 2017/18. This included reviewing assumptions built into the Medium Term Financial Strategy, as recommended by the Local Government Association when they recently conducted a Finance Peer Review at the Council.

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

- a Stronger Economy,
- a Stronger Community,
- a Stronger Organisation.

The Council does not want to simply manage decline, investment in the future is essential for both the Council and the City.

4.3 The targets have now been classified into proposals upon which the outcome of formal budget consultation is required – Budget Reduction and Income Generation proposals – and proposals which can be implemented without reliance on the outcome of formal budget consultation – Financial Transactions and Base Budget Revisions.

4.4 The 2017/18 Budget Reduction and Income Generation proposals that have been identified at this stage are summarised in the table below:

Table 1 – Budget Reduction and Income Generation Proposals for 2017/18 by Cabinet Portfolio

Cabinet Portfolio	No.	2017/18 £000
Adult Services	6	(4,835)
Children and Young People	4	(3,014)
Public Health and Wellbeing	-	-
City Housing and Assets	4	(1,200)
City Economy	1	(200)
City Environment	8	(3,250)
Resources	4	(170)
Governance	5	(870)
Education	-	-
Total	32	(13,539)

- 4.5 As a result of detailed work that has taken place since the last update to Cabinet in July 2016, there have been some changes to the budget reduction and income generation targets as detailed in Section 3 and reflected in the proposals reported in Appendix B.
- 4.6 Financial Transactions and Base Budget Revisions totalling £10.0 million in 2017/18 have also been identified; details of those revisions are provided in Appendix C, whilst the table below summarises those revisions by Cabinet Portfolio:

Table 2 – Financial Transaction and Base Budget Revisions for 2017/18 by Cabinet Portfolio

Cabinet Portfolio	No.	2017/18 £000
Adult Services	3	(224)
Children and Young People	1	(170)
Public Health and Wellbeing	1	(1,000)
City Housing and Assets	4	(792)
City Economy	1	(96)
City Environment	1	(144)
Resources	13	(7,602)
Governance	-	-
Education	-	-
Total	24	(10,028)

- 4.7 As can be seen from Tables 1 and 2, the Council has identified a total of £13.5 million Budget Reduction and Income Generation proposals and £10.0 million Financial Transactions and Base Budget Revisions towards the projected budget deficit for 2017/18.
- 4.8 It is proposed that Cabinet approve that the Budget Reduction and Income Generation proposals amounting to £13.5 million in 2017/18 proceed to the formal consultation and scrutiny stages of the budget process. The outcome of budget consultation and scrutiny will be reported to Cabinet in February 2017.
- 4.9 Further details for individual proposals are available on the Council's website using the following link <http://www.wolverhampton.gov.uk/financialstrategy>
- 4.10 In order to secure the benefit of Financial Transaction and Base Budget Revision proposals at the earliest opportunity, it is proposed that Cabinet delegate authority to the responsible Cabinet Member and the Cabinet Member for Resources, in consultation with the responsible Director and the Director of Finance to implement Financial Transactions and Base Budget Revisions at the earliest opportunity where the proposal is not reliant on the outcome of formal budget consultation.

- 4.11 At the time of writing, the Council is awaiting the final outcome of the West Midlands Pension Fund 2016 triennial valuation. Early discussions with the West Midlands Pension Fund have indicated that there are various options for payment which include making further pension contributions towards the past service deficit in 2017/18 to reduce the total costs and secure on-going budget reductions. Current projections assume further pension contributions of £3.1 million in 2017/18, in addition to this the possibility of using some of the Council's specific reserves is being considered, Cabinet approval is therefore sought to delegate authority to the Cabinet Member for Resources in consultation with the Director of Finance to pursue this option further, to secure on-going budget reductions to support the budget challenge that the Council will face in future years.

5.0 Update on Key Factors

- 5.1 The identification of budget reduction, income generation and base budget revisions for 2017/18 will enable the Council to secure further on-going savings by exploring the opportunity to make further pension contributions. However, it is important to note that due to a range of external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
- 5.2 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy (MTFS) remain under constant review and update. Key factors that are currently being investigated are detailed in the paragraphs below.

Apprenticeship Levy

- 5.3 In the Autumn Statement, the Secretary of State announced the introduction of an Apprenticeship Levy from 1 April 2017. The levy will be 0.5% of the Council's pay bill and will contribute to the training of apprentices from 2017/18 onwards. It was estimated that this will be approximately £600,000 for the Council and the MTFS was updated to reflect this development in February 2016. HMRC have now published the draft legislation for the apprenticeship levy which has highlighted potential areas for further consideration, including the impact on schools who use a separate payroll provider and the Council's recruitment agency Yoo Recruit. This will be investigated further over the forthcoming months and an update will be provided to Cabinet by February 2017.

Improved Better Care Fund Monies

- 5.4 On 8 February 2016, the Secretary of State announced the final local government finance settlement for 2016/17 and provided each authority with indicative core government grant allocations for 2017/18 to 2019/20. This included the announcement of the Improved Better Care Fund monies to be provided to Local Authorities as a separate grant from 2017/18 onwards. There continues to be a significant element of uncertainty regarding this funding and the potential transfer of responsibilities which may be attached to the funding. In order to be prudent, at this point in time, we have not assumed that this is new funding without conditions. We are however, seeking the views of the Local Government Association (LGA), LG Futures, the Special Interest Group of Municipal

Authorities (SIGOMA) and other Local Authorities, and will provide a further update to Cabinet in due course.

West Midlands Combined Authority

- 5.5 The West Midlands Combined Authority (WMCA) budget and medium term financial strategy is currently under development, the outcome of this may require funding from WMCA member councils. As the information becomes available it will be reflected in the MTFS and reported to Councillors.
- 5.6 Given the challenging financial environment within which the Council finds itself in, a focus on medium term planning is vital. In July 2016, Cabinet approved a high level strategy to address the projected deficit for 2018/19 and 2019/20; allocating the People Directorate with a target of identifying a further £18.0 million of budget reduction and income generation proposals by 2019/20, with the remaining £14.4 million to be identified by the rest of the Council.
- 5.7 To support this process Service Directors, Heads of Service and relevant Budget Managers have been participating in 'Review, Challenge and Progress' meetings. The aims of the meetings were to review and challenge the current budget provision for each service, to consider commercialisation opportunities and to consider how the service can achieve even better value for money and efficiencies. As a result of conducting the 'Review, Challenge and Progress' meetings, it is anticipated that opportunities for generating budget reduction and income generation targets in the short and medium term will be discussed and further developed with support from Strategic Finance.
- 5.8 Work therefore will continue to identify additional budget reduction and income generation opportunities to address the projected budget deficit in 2018/19 and 2019/20, now projected to be £30.4 million, in order to ensure that a balanced budget can be set over the medium term. An update on progress will be incorporated into the final budget report, to be presented to Cabinet in February 2017.
- 5.9 In July 2016, Full Council delegated authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the final four year settlement submission to the Secretary of State which would provide the Council with indicative core government grant allocations for 2017/18 to 2019/20, to cover the Parliamentary period. It is important to note that the submission to the Secretary of State has now been made. Confirmation of the Council's submission has been received and we are now awaiting further details from the Department of Communities and Local Government.
- ### **6.0 General Balances**
- 6.1 The Council's General Fund Balance stands at £10 million; this is the minimum balance as determined in the Council's Reserves and Balances Policy. Emphasis therefore continues to be placed on identifying budget reduction and income generation opportunities to meet the budget deficit for 2017/18 and later years without calling on general reserves.

7.0 Budget Risk Management and Timetable

7.1 A summary of the 2017/18 budget setting process timetable is detailed in the table below:

Table 3 – Budget Timetable

Milestone	Deadline
Draft Budget and Medium Term Financial Strategy 2017/18 – 2019/20 report to Cabinet	19 October 2016
Formal Budget Consultation and Scrutiny	October 2016 – January 2017
Report to Cabinet following the Provisional Local Government Finance Settlement	18 January 2017
Report to Cabinet detailing the Outcome of Budget Consultation and Scrutiny	February 2017
Final Budget Report 2017/18 to Cabinet	22 February 2017
Full Council Approval of Final Budget 2017/18	March 2017

7.2 The overall level of risk associated with the Draft Budget and Medium Term Financial Strategy (MTFS) 2017/18 - 2019/20 is assessed as Amber. The following table provides a summary of the risks associated with the MTFS, using the corporate risk management methodology.

Table 4 - General Fund Budget Risks 2017/18 – 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 and National Living Wage.	Amber
Budget Management	Risks that might materialise as a result of the robustness of financial planning and management, in addition to the consideration made with regards to the loss of key personnel or loss of ICTS facilities	Green
Transformation Programme	Risks that might materialise as a result of not identifying budget reductions, not delivering the reductions incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering budget reductions and downsizing the workforce.	Amber
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.	Amber
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Amber
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules, the impact of exiting the European Union and, in particular, from the Care Bill.	Red

8.0 Financial Implications

- 8.1 The financial implications are discussed in the body of the report.
[MH/06102016/Z]

9.0 Legal Implications

- 9.1 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 savings proposals.
- 9.2 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.
- 9.3 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.
- 9.4 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).
- 9.5 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.
- 9.6 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.

- 9.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2015/16.
[TS/10102016/N]

10.0 Equalities implications

- 10.1 Each of the budget reduction and income generation proposals covered by this report has been the subject of an initial equalities screening and, where necessary, a full equalities analysis is being undertaken. Details of this work will be published as part of the public consultation on the 2017/18 proposals. Further analysis will be carried out before the final draft budget is presented to Cabinet in February and Council in March, which will include a cumulative analysis of the various proposals to ensure Councillors can pay due regard to the equalities implications of their budget decisions.

11.0 Human resources implications

- 11.1 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 2017 through both voluntary redundancy and budget reduction targets which will result in compulsory redundancies. This will be reviewed in March 2017 to see if a further HR1 needs to be submitted.
- 11.2 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.
- 11.3 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.
- 11.4 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.

12.0 Schedule of Background Papers

Council Efficiency Strategy and Four Year Settlement, report to Full Council, 20 July 2016.

Draft Budget and Medium Term Financial Strategy 2017/18 – 2019/20, report to Cabinet, 20 July 2016.

2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20, report to Full Council, 2 March 2016.

APPENDIX A

Adjustments to the Medium Term Financial Strategy

	2017/18 £000
Projected Deficit (Cumulative) as approved by Council, March 2016	22,192
Budget Reduction and Income Generation Proposals approved in July 2016	(21,880)
<i>Budget Reduction and Income Generation Revisions</i>	
- Remove 'Restructuring of the Library Service' proposal	500
- Re-profile 'Children's Service Re-design' proposal to 2018/19	375
- Re-profile 'Reconfiguration of the Residual Waste Collection Service' proposal to 2018/19	500
- Removal of 'Re-provision of Staff Counselling Service' proposal	20
- Re-profile of 'Review of Waste and Recycling' proposal to reflect potential implementation date of June 2017	600
- Additional income from Commercial Estate	(250)
- Additional income from Bus Lane Enforcement to enhance Highways Management	(250)
- Corporate Administration Review	(50)
- Increase in Adults proposals as a result of detailed work	(59)
- Increase in Children's proposals as a result of detailed work	(14)
Additional Financial Transactions and Base Budget Revisions (including the option to make a further pension contribution in relation to the past service deficit to secure on-going budget reductions)	(1,684)
Projected Budget Challenge, October 2016	-

APPENDIX A

Adjustments to the Medium Term Financial Strategy

The adjustments to the Medium Term Financial Strategy can also be analysed as detailed below:

	2017/18 £000
Projected Budget Challenge, March 2016	22,192
Revisions	
- Remove 'Restructuring of the Library Service' proposal	500
- Re-profile 'Children's Service Re-design' proposal to 2018/19	375
- Re-profile 'Reconfiguration of the Residual Waste Collection Service' proposal to 2018/19	500
Sub Total	23,567
Budget Reduction and Income Generation Proposals – as detailed at Appendix B	(13,539)
Financial Transactions and Base Budget Revisions - as detailed at Appendix C	(10,028)
Projected Budget Challenge, October 2016	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

Adults

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Older People Assessment and Care Management – Promoting Independence	Adults	People	(1,100)	-	-
Age UK Contract Review	Adults	People	(48)	-	-
Equipment Store Tender	Adults	People	(150)	-	-
Transformation of the Emergency Duty Team	Adults	People	(100)	-	-
Disability and Mental Health – Promoting Independence	Adults	People	(3,200)	-	-
Housing related Support Service Redesign	Adults	People	(237)	-	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

Children and Young People

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Supervised Contact Efficiencies	Children and Young People	People	(264)	-	-
Children's Transformation Inclusion Support Income Generation	Children and Young People	People	(150)	-	-
Youth Offending Team Efficiencies	Children and Young People	People	(100)	-	-
Children's Services Transformation	Children and Young People	People	(2,500)	-	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

City Housing and Assets

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Facilities Management	City Housing and Assets	Place	(500)	-	-
Commercial Estate Income	City Housing and Assets	Place	(500)	-	-
Corporate Landlord Review Phase 2	City Housing and Assets	Place	(100)	-	-
Review of Homelessness & Tenancy Sustainment Services	City Housing and Assets	Place	(100)	(100)	-

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City Economy

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Increased income generation from Cultural Services	City Economy	Place	(200)	-	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

City Environment

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Reduce Leisure subsidy	City Environment	Corporate	(500)	-	-
Review of Waste & Recycling	City Environment	Place	(600)	(300)	(300)
Environmental Service Efficiencies	City Environment	Place	(500)	-	-
Review of Transport/Fleet	City Environment	Place	(500)	-	-
Highways Management	City Environment	Place	(750)	500	-
Active Management of Car Park Usage	City Environment	Place	(200)	-	-
Savings in Regulatory Services through Agile Working	City Environment	Place	(100)	-	-
Develop Commercial Opportunity for use of Existing Facilities at Northcote Farm	City Environment	Place	(100)	-	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

Resources

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Cease printing residual payslips	Resources	Corporate	(20)	-	-
Audit Services, Insurance and Health & Safety Restructure	Resources	Corporate	(50)	-	-
Procurement Restructure	Resources	Corporate	(50)	-	-
Corporate Administration Review	Resources	Corporate	(50)	(250)	-

Budget Reduction and Income Generation Targets by Cabinet Portfolio

Governance

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Organisational Development	Governance	Corporate	(500)	-	-
Further Development of YOO Recruit	Governance	Corporate	(200)	-	-
Governance Service Restructure	Governance	Corporate	(80)	-	-
Review of External Legal Fees	Governance	Corporate	(70)	-	-
School Admission Appeal Fees	Governance	Corporate	(20)	-	-

Financial Transactions and Base Budget Revisions

Adults

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Omega Contract Review	Adults	People	(38)	-	-
Life Direct Contract Review	Adults	People	(149)	-	-
Kaleidoscope Contract Review	Adults	People	(37)	-	-

Children and Young People

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Looked After Children – removal of inflation pressures relating to foster payments	Children and Young People	People	(170)	-	-

Financial Transactions and Base Budget Revisions

Public Health and Wellbeing

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Use of public health funding to support service areas that make a positive impact on health outcomes	Public Health and Wellbeing	People	(1,000)	-	-

City Housing and Assets

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Utilities and Rates from surplus/disposed buildings	City Housing and Assets	Place	(400)	-	-
Removal of inflationary allocation for Carbon Reduction Commitment	City Housing and Assets	Place	(31)	(31)	-
Adjustment to assumptions regarding Council Tax growth in base	City Housing and Assets	Place	(211)	(211)	(211)
Adjustment to assumptions regarding New Homes Bonus growth	City Housing and Assets	Place	(150)	(150)	(150)

Financial Transactions and Base Budget Revisions

City Economy

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Adjustment to assumptions regarding Business Rate growth base	City Economy	Place	(96)	(96)	(96)

City Environment

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Removal of Inflationary allocation for Landfill Tax	City Environment	Place	(144)	(144)	-

Financial Transactions and Base Budget Revisions

Resources

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Revenues & Benefits – grant income	Resources	Corporate	(100)	100	-
Special Dividend – Birmingham Airport	Resources	Corporate	(3,500)	3,500	-
ICTS Contract Efficiencies	Resources	Corporate	(100)	-	-
Revised assumptions regarding Pension Auto-enrolment – re-phasing to 2018/19	Resources	Corporate	(1,000)	1,000	-
Revision to Pension Cost assumptions including further pension contributions in 2017/18 in order to secure on-going savings	Resources	Corporate	2,088	1,000	-
Adjustment to assumptions around PFI savings	Resources	Corporate	(220)	-	-
Revisions to incremental pay provision	Resources	Corporate	(1,250)	(1,000)	(750)
Re-profile insurance inflation provision	Resources	Corporate	(200)	200	-

Financial Transactions and Base Budget Revisions

Resources

Description of Proposal	Cabinet Portfolio	Directorate	2017/18 £000	2018/19 £000	2019/20 £000
Revisions to inflation contingency	Resources	Corporate	(1,000)	-	-
Reassessment of the impact of interest rates on the Treasury Management Budget	Resources	Corporate	(1,890)	(640)	-
Senior Management increments voluntarily foregone	Resources	Corporate	(30)	-	-
Removal of budgeted contribution to the Bad Debt Provision	Resources	Corporate	(200)	-	-
Senior Management Restructure	Resources	Corporate	(200)	-	-

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Cabinet Meeting

19 October 2016

Report title	100% Business Rates Retention Pilot	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	No	
In forward plan	No	
Wards affected	None	
Accountable director	Keith Ireland, Managing Director	
Originating service	Strategic Finance	
Accountable employee(s)	Mark Taylor	Director of Finance
	Tel	01902 554410
	Email	mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Confident Capable Council Scrutiny Panel	9 November 2016

Recommendations for decision:

The Cabinet is recommended to:

1. Approve that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority, participates in a business rates retention pilot from April 2017, on a no detriment basis and in accordance with the terms outlined in this report.
2. Approve that Birmingham City Council act as lead authority in order to co-ordinate arrangements and liaise with DCLG over all matters relating to the pilot and that a fee is payable in recognition of any costs incurred relating to this role.
3. Delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve any changes to the terms outlined in this report, which may be necessary as the negotiation of the detailed terms of the pilot are progressed by the Combined Authority.

Recommendations for noting:

The Cabinet is asked to note:

1. That agreement to participate is subject to each individual constituent member authority's decision on whether to proceed with the pilot.

1.0 Purpose

- 1.1 The purpose of this report is to provide Cabinet with an update on the 100% Business Rates Retention Pilot and to seek Cabinet approval to participate in the pilot from April 2017, on a no detriment basis and in accordance with the terms outlined in this report.

2.0 Executive Summary

- 2.1 The Government has announced that it intends to introduce a national scheme for the full local retention of all business rates, potentially from 2020/21 onwards.
- 2.2 Areas that have agreed a Devolution Deal have the opportunity to be involved in a 100% business rates retention pilot, which will begin from 1 April 2017. This provides the opportunity to shape national thinking about the eventual scheme, and to take forward further devolution. Conversations about the potential for a West Midlands pilot have taken place in parallel with discussions about a Devo 2 deal. Each pilot will incorporate some core design principles, but there is some flexibility around what else is included.
- 2.3 The Department for Communities and Local Government (DCLG) have now clarified that this is open only to Constituent Member Authorities of Combined Authorities. Subject to approval by each local authority and by Ministers, each of the seven West Midlands Metropolitan District Councils could be involved in a pilot should they wish. It is important to note that, each authority would need to agree to participate for the pilot to go ahead.
- 2.4 The Government has confirmed that pilots will operate on a no financial detriment principle. In other words, authorities cannot be worse off financially than they would otherwise have been had they not participated in a pilot. Following detailed scrutiny of the way in which a pilot will operate, it has become clear that there is likely to be a windfall benefit to authorities as a result of being part of a pilot.
- 2.5 Some matters are still the subject of on-going discussion with DCLG Officials, and also local arrangements will need to be put in place, as detailed to in this report, these matters are being finalised by Councillor Bob Sleigh, Chair of the West Midlands Combined Authority, in consultation with the Strategic Director – Finance & Legal of Birmingham City Council. It is therefore necessary to delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve any changes to the terms outlined in this report, which may be necessary following the outcome of these negotiations.
- 2.6 Should the individual authorities and Ministers wish to proceed, there is a need for the Government to commence the necessary legal process by late October. This means that a firm indication to this effect must be given by early October, although this could be subject to formal governance processes at each authority during October.

3.0 Participation in the Pilot

- 3.1 Whilst discussions have been held on several occasions about the potential for a pilot to include all Member Authorities of the Combined Authority, it has now been clarified by DCLG that the opportunity is only available to Constituent Member Authorities.
- 3.2 It will be necessary for one of the authorities to act as Lead Authority in order to co-ordinate arrangements, and to liaise with DCLG. It is therefore recommended that Cabinet approve that Birmingham City Council undertakes this role. It would be appropriate to pay a small fee in recognition of the additional administrative costs incurred.

4.0 100% Business Rates Retention Pilot Design

- 4.1 A 100% business rates pilot will involve:
- A way of understanding how 100% business rates retention will impact on local authorities by testing it out in practice,
 - An opportunity to shape national thinking about how 100% retention could work with no risk of financial detriment across the devolution deal area,
 - Each individual local authority deciding whether or not it wishes to participate, although it should be recognised that it will be necessary for all of the Metropolitan Authorities to agree for the pilot to go ahead,
 - Each local authority still receiving its own “settlement” from the Government, collecting and retaining its own business rates and setting its own budget.
- 4.2 There will be some core elements that will feature in each pilot from 1 April 2017:
- Further local business rates retention (up to 100%),
 - Removal of Revenue Support Grant,
 - Appropriate adjustment to Top-ups/Tariffs, to reflect the net effect of the above two changes,
 - Participation will be on a “no detriment” basis. In other words, the area will be no worse off financially than it would otherwise have been had it not participated in the pilot.
- 4.3 References throughout this report to “business rates” also includes grants received as compensation for the impact of Government policy decisions in respect of business rates, such as small business rate relief. These grants will double under the pilot, when the current central share is retained locally.

5.0 No Detriment

- 5.1 The Government will calculate what resources would have been available to the authorities had they not participated in the pilot, and will compare that with the actual resources retained in business rates. Should the latter be a lower amount, then the Government will pay an additional grant so that authorities are no worse off through participation in the pilot. There is, therefore, no financial risk arising from participation.

- 5.2 The “no detriment” provision would be implemented by the Government on a collective basis, for the pilot area as a whole. It is proposed that a local decision is taken to extend this protection to each individual participating authority. An appropriate internal mechanism will need to be agreed locally, to ensure that this is the case. However, it is only those resources which are a windfall might need to be redistributed in this way. On this basis no authority could be worse off through participation in the pilot.
- 5.3 Paragraph 6.5 below refers to the existing agreement with Government, as part of the Devo Deal, that the growth from 1 April 2016 onwards in the current “central share” of business rates is ringfenced to the Combined Authority to assist in the funding of the £8 billion investment programme. Subject to the further dialogue referred to below, authorities will need to commit to contributing these resources to the Combined Authority. However, this requirement will be taken into account in the Government’s “no detriment” calculation.
- 5.4 The current system of business rates retention has been in place since 2013/14. As part of discussions concerning a potential pilot, the Government has clarified that any real terms growth in the central share since then will be available to the West Midlands. Growth in the central share from 2016/17 onwards is covered by the Devo Deal and will accrue to the Combined Authority, but we anticipate that agreed growth up to that point will be available to the Councils solely as a result of participating in the pilot.
- 5.5 The level of these additional resources available to Councils will depend upon confirmation of figures for 2015/16 and agreement being reached with DCLG on how to measure the starting point for the calculations under the Devo Deal.

6.0 Devolution

- 6.1 As part of developing the proposal for a pilot, there has been an opportunity to propose further devolution, whether that be the transfer of responsibilities or the incorporation of separate funding streams into the business rates funding mechanism. This would provide an opportunity to test out such further devolution within the safe confines of a “no detriment” arrangement.
- 6.2 Proposals for such further devolution need to be both detailed and specific. DCLG has provided details of grants/responsibilities where some inter-Government Department dialogue has already taken place and, therefore, where implementation would be less contentious. The list is not extensive and may, in some instances (eg. Public Health), be restricted to issues which have already been incorporated into Devo Deals.
- 6.3 The implementation of further devolution in this way does not have to be effective from 1 April 2017; there is an option to continue dialogue with DCLG and other Government departments, with a view to inclusion in the pilot at a later stage.
- 6.4 In view of the need to take swift decisions on whether or not to participate in a pilot, it is proposed that, from 1 April 2017, it be restricted just to the core elements described in para 4.2 above. However, it is further proposed that there is on-going dialogue with

Government in order to seek agreement on further devolution of responsibilities/grants in due course.

- 6.5 The West Midlands Devo Deal includes the Combined Authority receiving the real terms growth in the central share of business rates, from April 2016 onwards. When the full national system of 100% local retention of business rates is introduced in a few years' time, this element of the Devo Deal will need to be re-visited as there will no longer be a "central share". Therefore, Officers have sought to negotiate the inclusion of a new arrangement in a pilot, in order to test out a different approach. These negotiations are still on-going, and so there isn't a guarantee that it will be possible to incorporate something in time for April 2017. However, this element of funding will, as a minimum, still be protected under the "no detriment" arrangements for the duration of the pilot.

7.0 Other Matters

- 7.1 Participation in the pilot will not require any changes to existing business rates pools. Therefore, the Coventry & Warwickshire and GBSLEP business rates pools will be able to continue with their existing arrangements, and with all existing commitments being honoured. These will be taken into account in the "no detriment" calculation. Existing and any new Enterprise Zones will also not be affected by the pilot.
- 7.2 In the existing business rates retention system, authorities are protected by a "Safety Net" in the event that their locally retained business rates fall more than 7.5% below the baseline figure in any year. An equivalent, but lower, figure will need to be agreed for a pilot; authorities would not want to bear the risk of exposure to a 7.5% reduction in the full amount of business rates. Discussions are on-going on this detail, although it should be noted that authorities will, in any case, be protected by the "no detriment" arrangement.
- 7.3 The Government is considering a new approach to the management of the risk of business rates appeals under the full national business rates system. It is proposed, as part of the pilot, that the West Midlands authorities agree to undertake a desktop analysis of how this approach might work in practice in order to shape the Government's thinking on this matter.

8.0 Timescales

- 8.1 Should the individual authorities and Ministers wish to proceed, there is a need for the Government to commence the necessary legal process by late October. This means that a firm indication to this effect must be given by early October, although this could still be subject to formal governance processes at each authority during October.
- 8.2 A decision to participate will be taken by each authority individually, and not by the Combined Authority; this will be taken in accordance with local governance arrangements.

8.3 Figures calculated on the basis of participation in the pilot would then be incorporated into the Local Government Finance Settlement in December.

9.0 Financial implications

9.1 The financial implications are discussed in the body of the report.
[MH/10102016/P]

10.0 Legal implications

10.1 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 savings proposals.

10.2 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.
[TS/10102016/C]

11.0 Equalities implications

11.1 There are no direct equalities implications arising as a result of this report.

12.0 Environmental implications

12.1 There are no direct environmental implications arising as a result of this report.

13.0 Human resources implications

13.1 There are no direct human resources implications arising as a result of this report.

14.0 Corporate landlord implications

14.1 There are no direct corporate landlord implications arising as a result of this report.

15.0 Schedule of background papers

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