

Cabinet Meeting

22 July 2015

Report title	Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19	
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 Tel Email	Director of Finance 01902 556609 mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Confident Capable Council Scrutiny Panel	10 July 2015 7 October 2015

Recommendation(s) for action or decision:

That Cabinet is recommended to approve:

1. That the savings targets amounting to £16.9 million in 2016/17, be further developed, including the necessary equalities analyses, for inclusion in the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19, to be reported to Cabinet in October 2015 for approval to proceed to the formal consultation and scrutiny stages of the budget process.
2. The commencement of initial consultation and/or stakeholder engagement relating to individual savings opportunities, where this is necessary in order that they can be fully developed ahead of the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19 being reported to Cabinet in October 2015.

Recommendations for noting:

That Cabinet is asked to note:

1. That while progress is being made against the council's approved strategy to identify new savings of £20 million for 2016/17; work continues to identify £5.1 million of the £20 million new savings for 2016/17.
2. That the General Fund revenue outturn position for 2014/15 was a net underspend of £6.991 million (2.82%) against the net budget requirement of £247.6 million, as reported to Cabinet at this meeting in the Revenue Outturn 2014/15 report. This, combined with the receipt of additional Business Rates Support grant totalling £3.4 million, resulted in the Council not needing to draw down £9.9 million from General Fund Balances to balance the budget, as originally budgeted for.
3. That a significant element of the underspend arising within the 2014/15 General Fund outturn is already factored into the Council's Medium Term Financial Strategy, including savings arising as a result of changes to the Council's Minimum Revenue Provision (MRP) Policy, as approved by Full Council on 4 March 2015. Whilst the underspend against budget during 2014/15 will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying an additional £46.3 million of savings. Further to this, it is anticipated that the financial challenge could potentially be worse once the Autumn Spending Review is announced.
4. That a comprehensive review of all service areas, which is being led by Finance, is currently being undertaken to challenge all areas of underspend and identify any recurring savings which may contribute towards the savings strategy for 2016/17. The results of this review will be reported to Cabinet in October as part of the Draft Budget and Medium Term Financial Strategy report.
5. That it is proposed that £17 million is transferred from the General Fund Balance into specific reserves, for which approval is sought in the Reserves, Provisions and Balances 2014/15 report to be presented at this meeting. The Council's General Fund Balance will therefore stand at £10 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. This is in accordance with the planned approach as set out in the Council's MTFS, approved by Full Council on 4 March 2015.
6. That due to the uncertainty surrounding the future of public finances in 2016/17 and beyond following the Government budget announcement on 8 July which indicated that there would be some additional cost pressures and potential further cuts to grant, and the existing assumptions concerning the successful delivery of significant levels of challenging savings, the projected additional savings requirement in each of the next four financial years could still change significantly as more information becomes available, particularly following the spending review that is due to be published in the Autumn.

7. That in the event that the challenge increases in 2016/17 it will be necessary to identify more savings to ensure that the minimum of £10 million in the General Fund Balance is maintained for 2016/17.
8. That the 2016/17 budget timetable will, as in previous years, include an updated report presented to Cabinet in October 2015 detailing savings proposals that will be subject to formal budget consultation and scrutiny during October 2015 - January 2016. Further to this, an update on all budget assumptions and the Local Government Settlement will be presented to Cabinet by January 2016, with the final budget report due to be approved by Full Council in March 2016.

1.0 Purpose

- 1.1 The purpose of this report is to identify additional savings for 2016/17 and future years in accordance with the strategy set out in the Budget 2015/16 and Medium Term Financial Strategy (MTFS) 2015/16 to 2018/19, which was approved by Cabinet in February 2015 and Full Council in March 2015.
- 1.2 This report is the first of the financial year on the budget and 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 Budget 2015/16 and Medium Term Financial Strategy (MTFS) 2015/16 to 2018/19 was presented to Full Council for approval on 4 March 2015. After taking into account savings proposals approved during the 2015/16 budget setting process, equating to £26.9 million over the four year period to 2018/19, the Council is now faced with finding further estimated savings totalling £46.3 million by 2018/19.
- 2.2 A strategy to address the projected budget deficit over the medium term was approved by Full Council in March 2015, with an initial focus on identifying £20 million of additional savings for 2016/17 during the first few months of the current financial year, in order to demonstrate that a balanced budget can be achieved in 2016/17. Whilst the projected budget deficit for 2016/17 stands at £14.8 million, a savings target in excess of the projected budget deficit was deemed necessary due to the increased uncertainty surrounding future government funding. In the unlikely event that government funding is in line with, or better than, current projections, this strategy would give the Council some choice over the implementation of savings proposals.
- 2.3 It is important to note that a £2 million Adult Services savings target was incorporated into the existing MTFS within 2016/17, taking account of this the total savings target for 2016/17 stands at £22 million.
- 2.4 A further £26.3 million of savings need to be identified, over and above the savings target for 2016/17, in order to address the projected budget deficit over the medium term to 2018/19. Although it should be noted that due to the very uncertain times within which the Council is operating this figure could potentially increase significantly.
- 2.5 Since the 2015/16 budget was set, detailed work has been in progress across all areas of the Council to identify savings to deliver the approved strategy of identifying £22 million of savings for 2016/17.
- 2.6 The detailed work that has taken place to date has resulted in the identification of savings targets totalling £16.9 million for 2016/17; further details are provided in Section 3.

- 2.7 Whilst this represents significant progress against the Council's agreed budget strategy, work is continuing to identify possibilities to deliver the remaining estimated £5.1 million of savings targets required to meet the agreed budget strategy for 2016/17.
- 2.8 The General Fund revenue outturn position for 2014/15 was a net underspend of £6.991 million (2.82%) against the net budget requirement of £247.6 million, as reported to Cabinet at this meeting in the Revenue Outturn 2014/15 report. This, combined with the receipt of additional Business Rates Support grant totalling £3.4 million, resulted in the Council not needing to draw down £9.9 million from General Fund Balances to balance the budget, as originally budgeted for.
- 2.9 Significant underspends against the General Fund budget have been achieved during 2014/15 as a result of savings arising from a change in the Council's Minimum Revenue Provision (MRP) Policy, the early implementation of approved savings and the improved financial management and control achieved from the implementation of Agresso. A comprehensive review of all service areas, which is being led by Finance, is currently being undertaken to challenge all areas of underspend and identify any recurring savings which may contribute towards the savings strategy for 2016/17. The results of this review will be reported to Cabinet in October as part of the Draft Budget and Medium Term Financial Strategy report.
- 2.10 It is therefore proposed that £17 million is transferred from the General Fund Balance into specific reserves, for which approval is sought in the Reserves, Provisions and Balances 2014/15 report to be presented at this meeting. The Council's General Fund Balance will therefore stand at £10 million; the minimum balance as determined in the Council's Reserves and Balances Policy. Emphasis has therefore been placed on identifying budget savings to meet the approved savings strategy for 2016/17 and later years. It is important to note that this is in accordance with the planned approach as set out in the Council's MTFs, approved by Council on 4 March 2015.
- 2.11 Recent Government budget announcements on the 8 July indicated that Local Government will not incur additional in-year budget cuts; however it indicated that there would be some additional cost pressures, e.g. the impact of the living wage on the cost of external contracts, etc. and likely further cuts to grant; this will not become clear until the Autumn Spending Review is announced. Detailed research will be conducted to project the impact that this may have on the Council, with further updates reported to Cabinet in October.

3.0 Additional Savings Targets for 2016/17

3.1 The additional savings targets that have been identified at this stage are summarised in the table below:

Table 1 – Additional Savings Targets for 2016/17 by Cabinet Portfolio

Cabinet Portfolio	No.	2016/17 £000	2017/18 £000	2018/19 £000
Adult Services	5	(1,734)	350	-
Children and Young People	2	(4,500)	-	-
Public Health and Wellbeing	2	(1,600)	-	-
Education	2	(4,338)	4,046	(239)
City Assets	2	(102)	6	(38)
City Economy	4	(310)	(144)	-
City Environment	14	(1,312)	(87)	263
Governance	2	(165)	-	-
Resources	10	(2,871)	170	400
Total	43	(16,932)	4,335	386

- 3.2 Further details regarding these savings targets can be found in Appendix A. As can be seen in table 1 above, the Council has currently identified £16.9 million savings target towards the approved savings strategy of £22 million for 2016/17. Whilst this represents significant progress against the Council's agreed budget strategy, work is continuing to identify possibilities to deliver the remaining estimated £5.1 million of savings required to meet the agreed budget strategy for 2016/17. This will include a comprehensive review of the 2014/15 outturn position as detailed in Section 4 below.
- 3.3 It is proposed that Cabinet approve, the commencement of initial consultation and/or stakeholder engagement relating to individual savings opportunities where this is necessary, in order that they can be fully developed ahead of the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19 being reported to Cabinet in October 2015.
- 3.4 An update to the assumptions and projections built into the Draft Budget and Medium Term Financial Strategy 2016/17 – 2018/19 will be undertaken during the 2016/17 budget setting process. The Government budget announcement on 8 July indicated that there would be some additional cost pressures, e.g. the impact of the living wage on the cost of external contracts, etc. and likely further cuts to grant, however this will not become clear until the spending review is announced in the Autumn. In the event that the challenge increases in 2016/17, it will be necessary to identify more savings to ensure that the minimum of £10 million in the General Fund Balance is maintained for 2016/17.

4.0 General Fund Outturn and General Balances

- 4.1 The General Fund revenue outturn position for 2014/15 was a net underspend of £6.991 million (2.82%) against the net budget requirement of £247.6 million, as reported to Cabinet at this meeting. This, combined with the receipt of additional Business Rates Support grant totalling £3.4 million, resulted in the Council not needing to draw down £9.9 million from General Fund Balances to balance the budget, as originally budgeted for.
- 4.2 A significant element of the underspend arising within the 2014/15 General Fund outturn is already factored into the Council's Medium Term Financial Strategy (MTFS), including the early achievement of approved savings and savings arising as a result of changes to the Council's Minimum Revenue Provision (MRP) Policy, as approved by Full Council on 4 March 2015. It is important to note that, whilst the underspend against budget during 2014/15 will help to support the Council's short term financial position; it does not address the challenging financial position that the Council finds itself in over the medium term.
- 4.3 Nevertheless, a comprehensive review of all service areas, which is being led by Finance, is currently being undertaken to challenge all areas of underspend and identify any recurring savings which may contribute towards the savings strategy for 2016/17. The results of this review will be reported to Cabinet in October 2015.
- 4.4 Due to the favourable General Fund outturn position for 2014/15, the Council did not draw down £9.9 million from the General Fund Balance to balance the budget, as originally budgeted for, as stated above. It is therefore proposed that £17 million is transferred from the General Fund Balance into specific reserves, for which approval is sought in the Reserves, Provisions and Balances 2014/15 report to be presented at this meeting. This will therefore reduce the General Fund Balance to £10 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis has therefore been placed on identifying budget savings to meet the approved savings strategy for 2016/17 and later years. It is important to note that this is in accordance with the planned approach as set out in the Council's MTFS, approved by Council on 4 March 2015.

5.0 Update on Key Factors

- 5.1 The assumptions used in the preparation of the budget and Medium Term Financial Strategy (MTFS) remain under constant review and update.
- 5.2 The Government budget announcement on 8 July indicated that Local Government will not incur additional in-year budget cuts; however it is clear that there will be some additional cost pressures, e.g. the impact of the living wage on the cost of external contracts, etc. and it is anticipated that the financial challenge could potentially worsen once the Autumn Spending Review is announced and the extent of any further cuts to grant become more clear.

5.3 Detailed research will be conducted to project the impact that this may have on the Council, with further updates reported to Cabinet in October 2015.

6.0 Budget Risk Management and Timetable

6.1 A summary of the 2016/17 budget setting process timetable is detailed in the table below:

Table 2 – Budget Timetable

Milestone	Deadline
Report to Cabinet	22 July 2015
Further development of savings possibilities	August – October 2015
Draft Budget and MTFS 2016/17 – 2018/19 report to Cabinet	21 October 2015
Formal Budget Consultation and Scrutiny	October 2015 – January 2016
Report to Cabinet following the Local Government Financial Settlement	January 2016
Final Budget Report 2016/17 to Cabinet	February 2016
Full Council Approval of Final Budget 2016/17	March 2016

6.2 The overall level of risk associated with the Draft Budget and Medium Term Financial Strategy 2016/17 to 2018/19 continues to be assessed as Red. The following table provides a summary of the risks associated with the MTFS, using the corporate risk management methodology.

Table 3 - General Fund Budget Risks 2016/17 – 2018/19

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of the impact of non-pay inflation and pay awards, staff vacancy factors, VAT rules, loss of ICTS facilities, treasury management activity and the impact of Equal Pay and budget management failure.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering savings and downsizing the workforce.	Red
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, claw back, reduction to government grant or increased levels of bad debts.	Red
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Amber
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules and, in particular, from the Care Bill.	Red

7.0 Financial Implications

- 7.1 The financial implications are discussed in the body of the report.
[MH/10072015/T]

8.0 Legal Implications

- 8.1 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.
- 8.2 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.
- 8.3 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.
- 8.4 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).
- 8.5 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.
- 8.6 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.

- 8.7 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/13072015/J]

9.0 Equalities implications

- 9.1 The further development of the various savings targets for Cabinet's consideration in October will include an initial equalities screening for each proposal and, where necessary, a full equalities analysis. This will enable Councillors to pay due regard to the equalities impact of their budget decisions. The Council will publish the equalities analyses as part of its public consultation around the 2016/17 budget.

10.0 Human resources implications

- 10.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form has been issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce the workforce by up to 1,000 jobs across the Council in the period up to 31 March 2016 through both voluntary redundancy and savings targets which will result in compulsory redundancies.
- 10.2 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 savings being proposed, there will be reductions in services and employee numbers which will require fair and due process to be followed regarding consultation, selection and implementation of any compulsory redundancies. The accelerated timetable for achieving savings in the light of the financial settlement is likely to require the Council as an employer to utilise the statutory 45 day and 30 day consultation periods for some service reductions, rather than the best practice position of allowing, where possible, 90 days.
- 10.3 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. Savings targets to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations.
- 10.4 There is on-going consultation with the trade unions on the impact Council's budgetary position and the targets being made to meet the challenges posed by it.

11.0 Schedule of Background Papers

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

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

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

Quantified Savings Targets by Cabinet Portfolio

Adult Services

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Reshaping of Older People Services	Cllr Elias Mattu	People	(820)	-	-
Restructuring of the Library Service	Cllr Elias Mattu	People	(500)	-	-
Early achievement of existing savings proposal – Learning Disabilities Assessment and Care Management Care Packages	Cllr Elias Mattu	People	(350)	350	-
Move Warstones Office Base (completion of 2013/14 savings proposal)	Cllr Elias Mattu	People	(35)	-	-
Efficiency saving from the relocation of the Independent Living Service	Cllr Elias Mattu	People	(29)	-	-

Quantified Savings Targets by Cabinet Portfolio

Children and Young People

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Children's Services Redesign	Councillor Val Gibson	People	(4,350)	-	-
Youth Offending Team - efficiency savings	Councillor Val Gibson	People	(150)	-	-

Public Health and Wellbeing

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Use of Public Health funding to support service areas with positive impact on public health outcomes	Councillor Sandra Samuels	People	(948)	-	-
Further review of utilisation of Public Health funding - Community Safety, Resilience, Healthier Schools	Councillor Sandra Samuels	People	(652)	-	-

Quantified Savings Targets by Cabinet Portfolio

Education

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
BSF related opportunities – Refinancing of Highfields & Penn Fields PFI (one-off saving)	Councillor Claire Darke	Education	(4,200)	4,200	-
Primary Capital Programme (expansions) - utilise grant now secured to replace prudential borrowing	Councillor Claire Darke	Education	(138)	(154)	(239)

City Assets

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Highways Maintenance – Reduction in Borrowing following successful grant bid	Councillor Peter Bilson	Place	(52)	6	(38)
Establish a single catering function across the Council	Councillor Peter Bilson	Place	(50)	-	-

Quantified Savings Targets by Cabinet Portfolio

City Economy

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Phased Removal of remaining Grand Theatre Grant	Councillor John Reynolds	Place	(124)	(124)	-
Further Restructure of City Economy Services	Councillor John Reynolds	Place	(93)	-	-
Further external funding of Outdoor events.	Councillor John Reynolds	Place	(20)	(20)	-
Review remaining Lighthouse Media Centre Grant	Councillor John Reynolds	Place	(73)	-	-

Quantified Savings Targets by Cabinet Portfolio

City Environment

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Capitalise thin surfacing of carriageways	Councillor Steve Evans	Place	(636)	24	263
Bus Lanes Phase 2	Councillor Steve Evans	Place	(150)	-	-
Review residential parking across wider New Cross area	Councillor Steve Evans	Place	(100)	(100)	-
Further restructure of Street Lighting Operations.	Councillor Steve Evans	Place	(70)	-	-
Review of residential areas street cleanse manual frequency focussing resources on known litter hotspots	Councillor Steve Evans	Place	(55)	-	-
Review of frequency of leisure site cleansing	Councillor Steve Evans	Place	(50)	-	-

Quantified Savings Targets by Cabinet Portfolio

City Environment

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Fixed Penalty Receipts	Councillor Steve Evans	Place	(50)	-	-
Surface water management	Councillor Steve Evans	Place	(50)	-	-
Provision of UTC services for Walsall BC	Councillor Steve Evans	Place	(40)	-	-
Amendments to Regulatory Services Operations	Councillor Steve Evans	Place	(31)	-	-
Review of the number of play areas	Councillor Steve Evans	Place	(25)	-	-
Review the employee structure for the Market Service following the relocation of Wolverhampton market.	Councillor Steve Evans	Place	(25)	-	-
Various amendments to waste collection operations	Councillor Steve Evans	Place	(19)	-	-
Further Grounds Maintenance Reductions/Efficiencies	Councillor Steve Evans	Place	(11)	(11)	-

Quantified Savings Targets by Cabinet Portfolio

Governance

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Review of Staff Training	Councillor Paul Sweet	Corporate	(90)	-	-
Governance Restructure	Councillor Paul Sweet	Corporate	(75)	-	-

Quantified Savings Targets by Cabinet Portfolio

Resources

Description of Saving	Cabinet Member	Directorate	2016/17 £000	2017/18 £000	2018/19 £000
Customer Services Transformation – accelerate existing savings	Councillor Andrew Johnson	Corporate	(850)	150	700
Review of council tax scheme, discounts and charging for invoices	Councillor Andrew Johnson	Corporate	(525)	-	-
Review of Centro Levy	Councillor Andrew Johnson	Corporate	(431)	-	-
Review of Pensions costs	Councillor Andrew Johnson	Corporate	(400)	-	-
Treasury Management savings including MRP	Councillor Andrew Johnson	Corporate	(300)	-	(300)
Review of ICT requirements	Councillor Andrew Johnson	Corporate	(145)	(20)	-
Efficiencies within Financial Services	Councillor Andrew Johnson	Corporate	(70)	(10)	-
Accelerate Revenues and Benefits team restructure	Councillor Andrew Johnson	Corporate	(50)	50	-
Revised approach to Procurement	Councillor Andrew Johnson	Corporate	(50)	-	-
Review residual fraud resource (within Internal Audit)	Councillor Andrew Johnson	Corporate	(50)	-	-