

APPENDIX 2

1.0 Budget Strategy 2021-2022 to 2023-2024 – Update on Assumptions

- 1.1 Since the 2020-2021 budget was set in March 2020, work has been ongoing to review corporate resources assumptions, growth and inflation assumptions and to identify budget efficiencies to address the projected budget challenge of £15.5 million in 2021-2022, rising to around £20 million over the medium-term period to 2023-2024, as anticipated at that point. In July 2020, Cabinet received a report which detailed revisions in assumptions which resulted in the identification of £6.8 million towards the projected budget deficit for 2021-2022. Taking this into account, the remaining budget challenge to be identified for 2021-2022 stood at £8.7 million.
- 1.2 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy remain under constant review and update.
- 1.3 The base assumptions built into the MTFFS approved by Council in March 2020 including: assumed increases in council tax, pay awards, provision for inflationary growth and demand in social care remain unchanged.
- 1.4 In light of the Covid-19 pandemic and confirmation that the Comprehensive Spending Review 2020 would be delayed, further work has been undertaken to assess the potential impact on the Council's 2021-2022 draft budget and Medium Term Financial Strategy. The following paragraphs provide detail of updated assumptions in a number of areas. Work will continue over the coming months to review all assumptions in the Medium Term Financial Strategy and a further update will be presented to Councillors in January 2021.

Corporate Resources

- 1.5 A number of assumptions have been made with regards to the level of resources that will be available to the Council. It is important to note that there continues to be a considerable amount of uncertainty with regards to the future funding streams for local authorities. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and increase the budget deficit forecast over the medium term.
- 1.6 On 21 October 2020, HM Treasury confirmed that a one-year Spending Review will take place at the end of November 2020 in order to prioritise the Government response to Covid-19. It was stated that the Spending Review will build on support already provided in response to Covid-19 and focus on providing departments with certainty needed to tackle Covid-19, giving public services support to fight the virus and investing in infrastructure. The outcome of the one-year Spending Review will be reported to Councillors in January 2021.

Collection Fund Deficit

- 1.7 On 8 July 2020, Cabinet received a report detailing the final outturn on the Collection Fund for 2019-2020 which consisted of a cumulative deficit in the region of £532,000 on Council Tax and a cumulative deficit in the region of £939,000 on Business Rates. Of the accumulated deficit on the Collection Fund, the Council will retain a deficit in the region of £1.1 million. Due to the timing associated with collection fund accounting, the deficit retained by the Council will impact on the 2021-2022 budget. This has been recognised in the MTFS.
- 1.8 In addition to this, current projections indicate that there will be a significant reduction in the amount of funds that are collected in 2020-2021 from Council Tax and Business Rates; a result of the impact Covid-19 has had on the economy. As stated above, due to collection fund accounting treatment, any Collection Fund losses from 2020-2021 will not impact upon the Council's budget until 2021-2022.
- 1.9 Current working assumptions indicate that there could be a 15% reduction in the collection rate and appeals for remaining business rates, and a 6% reduction in the collection rate on Council Tax. In addition, it is forecast that losses will increase due to the increase in the number of Council Tax Relief cases; there has been a 1,500 increase in the number of working age claimants as at the end of September 2020, when compared to the start of the financial year. In total, the current projected 2020-2021 losses are expected to be in the region of £15.4 million.
- 1.10 The Government have announced that that the repayment of collection fund deficits arising in 2020-2021 can be spread over a three year period (2021-2022 to 2023-2024). Based on current projections this could result in an annual cost of £5.1 million.
- 1.11 Furthermore, it is forecast that losses of the same magnitude will be replicated in future years from 2021-2022 onwards, however the Government have not stated that any future losses could be spread over multiple financial years. The MTFS assumptions have therefore been updated to reflect the potential reduction in resources available to the Council.

One-off Funding Streams

- 1.12 Following a review of the anticipated level of reserves and grant balances, it is proposed that one-off funds totalling £1.1 million be released from the Business Rates Equalisation Reserve to help address some of the pressures detailed above on the Collection Fund.

Fees and Charges

- 1.13 The Council levies a wide range of fees and charges for many of its services. Some are discretionary and others are either specified or restricted by legislation or Government. Services continue to review their fees and charges policies in line with key priorities. It is therefore proposed that authority be jointly delegated to the responsible Cabinet Member and the Cabinet Member for Resources, in consultation with the responsible Director and the Director of Finance to vary fees and charges in line with key priorities.

Changes to Growth and Inflation

Emerging Pressures

- 1.14 In July 2020, Cabinet were informed that options were being explored on identifying efficiencies from potential technical financial transactions. High-level assumptions indicated that one-off efficiencies in the region £5 million could be generated in 2021-2022 reducing to £2 million over the medium term. However, in order to be prudent, the potential financial transaction has been removed from the current MTFS assumptions. Work will continue on these proposals over the next few months, with further reports to Cabinet in due course.
- 1.15 In depth reviews are being undertaken on existing budget reduction and income generation proposals in light of the Covid-19 pandemic and changes to the environment in which we currently operate. Current assumptions indicate that £2.5 million of savings will not be delivered in 2021-2022 as planned. Work is ongoing to ensure that proposals included in the MTFS are deliverable over the medium term. Further details will be reported back to Cabinet in the future reports.
- 1.16 Similarly, reviews are being undertaken on growth and inflation currently built into the MTFS. Current assumptions indicate that there is a net growth and inflationary requirement totalling £348,000 in 2021-2022. It is important to note, that detailed work continues to assess the impact that Covid-19 may have on the assumptions built into the MTFS.

Emerging Opportunities

- 1.17 As part of the detailed budget review, a number of one-off corporate budget efficiencies in 2021-2022 have been identified totalling £2.7 million. These efficiencies are primarily linked to the historic non-requirement of the auto-enrolment pot which has been held for the auto-enrolment of employees into the pension scheme, and other corporate contingencies. In addition to this, it is currently anticipated that the Council could see a net underspend against the 2020-2021 corporate budget. It is therefore proposed that the net underspend in 2020-2021 be transferred into a specific reserve to support the 2021-2022 budget strategy.
- 1.18 In addition to this, a number of one-off efficiencies have been identified totalling £530,000.
- 1.19 The Council has played a proactive, leading role in responding to Covid-19. The overall Covid-19 Emergency grant funding allocation for Wolverhampton to support the unprecedented financial situation that the Council finds itself in due to Covid-19 totals £25.5 million at the point of writing. However, further funding is required in order to meet the full costs of the pandemic that will be seen over the medium term. It is assumed that

the Government will provide sufficient grant funding to cover these pressures following the Secretary of State for Housing, Communities and Local Government stating in a message to council leaders which committed the Government to do “whatever it takes” to ensure that local authorities have the resources needed to do what was being asked of them to help with the pandemic response.

- 1.20 Without the cost pressures arising as a result of the Covid-19 pandemic, it is estimated that the Council is currently faced with a budget deficit in the region of £4.5 million for 2021-2022 and is on track to deliver another balanced budget. A range of options will be explored to bridge the gap including setting efficiency targets to all Directorates.
- 1.21 The overall impact of the revisions to the draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024, arising as result of the items detailed in the paragraphs above but with the Government funding the cost of Covid-19 pressures, have been reflected in Table 1 below.

Table 1 - Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 – Covid pressures funded

	2021-2022	2022-2023	2023-2024
	£000	£000	£000
Projected Budget Challenge as at July 2020	8,690	21,828	20,382
Changes to Corporate Resources			
- Reduced Collection Fund forecast	14,674	(674)	(1,000)
- Collection Fund deficit 2019-2020	1,100	(1,100)	-
- One-off Funding Streams	(1,100)	1,100	-
- Government Covid-19 support	(22,733)	1,200	1,000
Changes to Growth and Inflation			
- Potential technical financial transactions	5,000	(3,000)	-
- Revisions to budget reduction targets	2,500	700	300
- Revisions to growth and inflation	348	(200)	-
- Potential underspends and corporate efficiencies	(3,700)	3,700	-
- Treasury Management	200	-	1,000
- One-off efficiencies	(530)	330	-
- Impact of Covid	TBC	TBC	TBC
Annual Change	(4,241)	2,056	1,300
Cumulative Change	-	(2,185)	(885)
Projected deficit after cumulative impact of revisions	4,449	19,643	19,497

- 1.22 Despite austerity since 2010, the Council has a strong track-record of managing money well, planning ahead and delivering excellent services.
- 1.23 However, in the event that sufficient grant funding to meet the pressures arising as a result of Covid-19 is not provided to local authorities, this would have a significant impact on the Council and result in the Council undertaking a fundamental review of all services in order to identify budget efficiencies sufficient enough to set a balanced budget. The financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. As can be seen from the table below, the projected budget deficit for 2021-2022 could rise to a minimum of £23.2 million for 2021-2022, increasing to over £40 million over the medium term. This will be closely monitored, with updates provided in future reports.

Table 2 - Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 – Covid pressures not funded

	2021-2022	2022-2023	2023-2024
	£000	£000	£000
Projected Budget Challenge as at July 2020	8,690	21,828	20,382
Changes to Corporate Resources			
- Reduced Collection Fund forecast	14,674	(674)	(1,000)
- Collection Fund deficit 2019-2020	1,100	(1,100)	-
- One-off Funding Streams	(5,100)	5,100	-
Changes to Growth and Inflation			
- Potential technical financial transactions	5,000	(3,000)	-
- Revisions to budget reduction targets	2,500	700	300
- Revisions to growth and inflation	348	(200)	-
- Potential underspends and corporate efficiencies	(3,700)	3,700	-
- Treasury Management	200	-	1,000
- One-off efficiencies	(530)	330	-
- Impact of Covid	TBC	TBC	TBC
Annual Change	14,492	4,856	300
Cumulative Change	-	19,348	19,648
Projected deficit after cumulative impact of revisions	23,182	41,176	40,030