

CITY OF WOLVERHAMPTON COUNCIL	Cabinet 17 February 2021
--	---

Report title	2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee	Claire Nye	Director of Finance
	Tel	01902 550478
	Email	Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	5 February 2021
	Council	3 March 2021

Recommendations for decision:

The Cabinet recommends that Council approves:

1. The net budget requirement for 2021-2022 of £258.5 million for General Fund services (paragraph 10.1).
2. The Medium Term Financial Strategy (MTFS) 2021-2022 to 2023-2024 as detailed in Table 4 and the budget preparation parameters underpinning the MTFS as detailed in Appendix 2 to this report.
3. A Council Tax for Council services in 2021-2022 of £1,765.49 for a Band D property, being an increase of 4.99% on 2020-2021 levels, which incorporates the 3% increase in relation to Adult Social Care, in line with Government expectations. (paragraph 8.4, Table 1).

4. That work starts on developing budget reductions and income generation proposals for 2022-2023 onwards in line with the Five Year Financial Strategy (paragraph 10.5).
5. Revisions to the local council tax support scheme (paragraph 8.7).

The Cabinet is recommended to approve:

1. The updated assumptions used in the Budget 2021-2022 and the MTF5 2021-2022 to 2023-2024 as detailed in sections 7 and Appendix 1.
2. That authority be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share of business rates for 2021-2022 and future years to be passported to the West Midlands Combined Authority (WMCA) (Appendix 1, paragraph 1.29).
3. That authority be delegated to the Cabinet Member for Resources and Cabinet Member for Education and Skills, in consultation with Director of Finance and Director of Children's and Adult Services, to approve changes to the local funding formula for Schools including method, principles and rules adopted (paragraph 12.4).
4. That authority continues to be delegated to the Cabinet Member for Resources in consultation with the Director of Finance to consider further opportunities to accelerate pension contribution payments to secure additional budget reductions (Appendix 1 paragraph 1.5).
5. That the external provider of Risk Based Verification (RBV) is no longer beneficial to the service and that the Council ceases to operate the external RBV system from 31 March 2021, using an in-house RBV approach to the verification of new Housing Benefit and Council Tax Support claims (paragraph 8.10).

Recommendations for noting:

The Cabinet is asked to note:

1. That the budget for 2021-2022 is in balance without the use of general reserves (paragraph 10.1).
2. That, in the opinion of the Director of Finance (Section 151 Officer), the 2021-2022 budget estimates are robust (paragraph 10.1).
3. That, in the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year (paragraph 11.4).
4. That a further £25.4 million needs to be identified for 2022-2023 rising to £29.6 million over the medium term to 2023-2024 in order to address the projected budget deficit (paragraph 10.5).

5. That, due to external factors, in particular the impact of Covid 19, budget assumptions remain subject to significant change, which could therefore result in alterations to the financial position facing the Council (paragraph 7.5).
6. That, there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming multi-year Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and further increase the budget deficit forecast over the medium term (paragraph 7.20).
7. That, the overall level of risk associated with the 2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 is assessed as Red (paragraph 9.1).
8. That Councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions (paragraph 17.7).

1.0 Purpose

- 1.1 The purpose of this report is to present a balanced budget for 2021-2022 aligned to the Council Plan priorities and an update to the Medium Term Financial Strategy (MTFS) 2021-2022 to 2023-2024, for recommendation to Full Council.
- 1.2 This report also provides an update on the projected financial implications of the Covid-19 pandemic and the core principles and next steps that will be taken in order to address the financial pressures faced by the Council over the medium term.

2.0 Background and Summary

- 2.1 The Council has a strong track record over many years of managing its finances well, planning ahead and consistently setting a balanced budget, despite austerity, while maintaining an appropriate level of general balance reserves. Over the last ten years the Council has identified budget reductions in excess of £235 million.
- 2.2 On 4 March 2020, the Council approved the net budget requirement for 2020-2021 of £248.2 million for General Fund services. This was the sixth year running the Council was able to set a balanced budget without the need to make use of general reserves. It was projected that the Council would be faced with finding further estimated budget reductions totalling £15.5 million in 2021-2022 rising to around £20 million over the medium term to 2023-2024. This budget was set prior to Covid-19 being declared a global pandemic and at the time of reporting, the full impact of Covid-19 on both the finances and operating environment could not have been foreseen.
- 2.3 In March 2020, Full Council approved that work started immediately to identify budget efficiencies for 2021-2022 onwards, in line with the Five Year Financial Strategy. Cabinet have been updated throughout the year as work progressed to address the budget deficit.
- 2.4 In November 2020, Cabinet received a report in which it was stated that without the cost pressures arising as a result of the Covid-19 pandemic, it was estimated that the Council would be faced with a budget deficit in the region of £4.5 million for 2021-2022 and be on track to deliver another balanced budget. It was also stated that, the huge costs of dealing with the immediate implications of the ongoing pandemic and the likely ongoing costs caused by the resulting economic damage, the Council would be faced with significant forecast financial pressures. Without additional government funding, this would increase the projected budget deficit to be in the region of £23.2 million in 2021-2022, rising to more than £40 million over the medium term.
- 2.5 It was assumed that the Government would honour a commitment to provide sufficient grant funding to cover these pressures following the Secretary of State for Housing, Communities and Local Government previously stating in a message to council leaders that committed the Government to do “whatever it takes” to ensure that local authorities

would have the resources needed to do what was being asked of them to help with the pandemic response. The Council remains reliant on the Government's commitment to provide sufficient grants into the future.

- 2.6 The financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. As detailed in paragraph 3.7, our current projections indicate that having taken into account additional government grant, there is a net cost pressure of over £6 million in 2021-2022 as a result of Covid.
- 2.7 Since November 2020, the 2021-2022 budget setting process has continued with the identification of emerging budget pressures and the review of government funding announced in the provisional settlement. In order to be able to balance the budget for 2021-2022 work has continued to identify further efficiency measures. In summary and despite the net budgetary impact of Covid, a balanced budget for 2021-2022 is proposed without the need to undertake a fundamental review of services or the use of general reserves.
- 2.8 Due to the short term nature of Government funding streams, and the one-off nature of some of the efficiency measures, the deficit increases to £29.5 million over the period to 2023-2024 when including the cost implications of the pandemic. It is vital that the government provides confirmation of medium term funding as soon as possible in order that the council can ensure the continuation of key service provision and the delivery of Relighting Our City Priorities.
- 2.9 Reserves play a vital role in the financial sustainability of the Council. It is important to note that, the Council's General Fund Balance stands at £13 million. This level of reserve is approximately 5% of the 2020-2021 net budget which is in line with recommended best practice. In addition, the Council holds specific reserves which are set aside to fund future planned expenditure. It is vital the Council continues to hold these reserves to mitigate the risk of uncertainty of any potential future expenditure and to support the delivery of council priorities, therefore it is not an option to use the funds to meet the budget deficit.
- 2.10 The Director of Finance recommends the MTFs to Cabinet as a reasonable forecast over the medium term but recognises that external factors could have a significant impact on the financial position of the Council.

3.0 Covid – Our role in the crisis

- 3.1 From the earliest days of this national emergency, central government made it clear that councils would have a vital role to play in delivering the pandemic response (Source: <https://www.gov.uk/government/news/robert-jenrick-reaffirms-support-for-councils-in-their-coronavirus-response>). The council, working alongside city partners, residents and businesses, heeded the government call to prioritise helping the most vulnerable in society and to support the local economy.

- 3.2 The Council considered evidence when drawing up a response to the pandemic to ensure that the right response was delivered at the right level to support the residents and businesses of Wolverhampton.
- 3.3 This has required the implementation of new, short term initiatives requiring additional investment including work to support vulnerable residents, reduce transmission of Covid-19 in our city, working with schools and early years providers to support children and young people and provide grants and support to local businesses and high streets.
- 3.4 All of these short-term new initiatives required additional investment and have been funded to-date by the funding received from Central Government.
- 3.5 In addition to the short-term initiatives, a number of services were suspended in response to Government requirements. Income streams have been adversely affected from the loss of fees and charges for services, such as car parking, leisure and cultural services.
- 3.6 One-off grants have been provided to support the cost implications of the pandemic in 2020-2021, including £25.5 million of general Emergency Covid-19 funding. In addition, Councils can apply for funding to part fund the loss of non-commercial income. The Council has received £2.2 million to-date for losses for the period of April to July. Grant funding for the period of September to March is estimated to be in the region of £3.6 million, however, this will be subject to grant claims. Our current projections demonstrate that the estimated grant funding for Wolverhampton will be sufficient to meet the immediate revenue cost pressures and loss of income, including the delivery of budget reduction targets in 2020-2021. However, it is important to note, that the financial implications are subject to change and do not include the full cost of recovery work or any provision for changes in national or local restrictions.
- 3.7 As part of setting the 2021-2022 budget, the ongoing impact of the pandemic has been considered. Due to the distortion of the budget as mentioned in paragraph 2.6 it is difficult to confirm the exact costs directly associated with Covid-19. However, after taking into account the grants specifically for Covid-19, our current assumptions estimate that the net impact of the pandemic is in the region of £6.4 million as shown in Table 5. This cost pressure has been met from other efficiencies identified across the Council.
- 3.8 The costs of dealing with the pandemic extend beyond the immediate support outlined above. It is not yet known how long the pandemic will go on for or what the level of future support required will be. It is anticipated that pressures will continue to emerge in many areas particularly in relation to adult social care, public health and wellbeing and income generating services. In addition, the economic costs of the pandemic will place additional pressures on the Council's income collected from council tax and business rates for years to come.

4.0 Five Year Financial Strategy

- 4.1 The Council's strategic approach to address the budget deficit is to align resources to Our Council Plan 2019-2024 which was approved by Full Council on 3 April 2019.
- 4.2 Our Council Plan 2019-2023 sets out how we will deliver our contribution to Vision 2030 and how we will work with our partners and communities to be a city of opportunity. The plan includes six strategic priorities which come together to deliver the overall Council Plan outcome of 'Wulfrunians will live longer, healthier and more fulfilling lives.' Resources will continue to be aligned to enable the realisation of the Council's priorities of achieving:
- Children and young people get the best possible start in life
 - Well skilled people working in an inclusive economy
 - More good jobs and investment in our city
 - Better homes for all
 - Strong, resilient and healthy communities
 - A vibrant, green city we can be proud of
- 4.3 Covid-19 has had a significant international, national and regional impact and will continue to do so over the short and medium term. The pandemic has made the challenges faced in our local economy much harder. As detailed in section 5, the Council has developed its five-point recovery plan, 'Relighting Our City' which sets out the priorities which will guide the Council's approach as the organisation and the City starts to transition from the response to the recovery phase of the pandemic.
- 4.4 The Financial Strategy, approved by Council in March 2019, consists of five core principles underpinned by eight core workstreams. Using the Core Workstreams as the framework for the Financial Strategy detailed delivery plans are being developed all with a lead director. The Core principles and workstreams are:
- **Core Principles:**
 - **Focusing on Core Business.** Focus will be given to those activities that deliver the outcomes local people need and which align to our Council Plan and Financial Strategy.
 - **Promoting Independence and Wellbeing.** We will enable local people to live independently by unlocking capacity within communities to provide an effective and supportive environment.
 - **Delivering Inclusive Economic Growth.** We will continue to drive investment in the City to create future economic and employment opportunities.
 - **Balancing Risk.** We will ensure we base decisions on evidence, data and customer insight.
 - **Commercialising our Approach.** We will boost social value in our City by maximising local procurement spend with people and businesses.

- **Core Workstreams:**

- **Promoting Digital Innovation.** Improve access to digital services to empower local people to self-serve at a time and place that suits them whilst reducing 'traditional' operating costs.
- **Reducing demand.** Through early intervention and closer collaboration with local people we aim to reduce demand for services and support greater independence and resilience.
- **Targeted Service Delivery.** Our efforts will be focused in the areas and places that need us the most and where we can deliver the best possible outcomes within the resources available.
- **Sustainable Business Models.** We will develop the most efficient and effective services possible, within the significant financial constraints we face, to meet the needs of local people.
- **Prioritising Capital Investment.** Aligned to our strategic plan, investment will focus on the priorities that deliver the best possible return and outcomes for local people.
- **Generating Income.** Better understanding the markets we operate in will enable us to develop new, innovative income generation opportunities with partners where appropriate.
- **Delivering Efficiencies.** By reviewing our resources, business processes and better using technology, we will deliver services which meet customer needs efficiently and cost-effectively.
- **Maximising Partnerships and External Income.** We will take a much more strategic role, working with our partners, to identify opportunities to collaborate, share resources, reduce costs and seize funding opportunities

5.0 Relighting Our City Agenda

- 5.1 Alongside managing the emergency response to the pandemic, the Council has also undertaken extensive planning for recovery which was approved by Cabinet in September 2020. It engaged with around 2,500 people including residents, young people, the voluntary and community sector and other partners, employees, Councillors and businesses across the city. This engagement has shaped the Council's five-point recovery plan, 'Relighting Our City'.
- 5.2 Relighting Our City sets out the priorities which will guide the Council's approach as the organisation and the City starts to transition from the response to the recovery phase of the pandemic:
- Support people who need us most
 - Create more opportunities for young people
 - Support our vital local businesses
 - Generate more jobs and learning opportunities
 - Stimulate vibrant high streets and communities
- 5.3 Relighting Our City also references three cross cutting themes which cut across all of our recovery work, namely being climate focused, driven by digital and fair and inclusive in our approach.

- 5.4 In order to ensure the delivery of our recovery commitment, the Council's MTFS will be aligned to the priorities as set out in Relighting Our City. In addition to this, budget growth in the region of £510,000 has been incorporated into the proposed 2021-2022 budget to support the Relighting Our City agenda; this is in addition to the £3.0 million Recovery Reserve which was established as part of the 2019-2020 closedown process.
- 5.5 It is vital that the city has the resources to be able to focus on recovery which will enable the city to address key challenges and assist the government to deliver its 'levelling up' agenda and capitalise on new opportunities as the city transitions out of the response phase of the pandemic. Whilst it is projected that Government funding will be sufficient for 2020-2021 and that they have announced some resources to support the impact of Covid-19 in 2021-2022, if the impact of the pandemic continues over a prolonged period of time and additional Government funding is not forthcoming, the Council may need to make significant reductions to existing budgets and potentially make use of earmarked reserves in order to meet the costs of increased activity or loss of income. This would compromise the Council's ability to deliver its Relighting Our City plan and deliver its priorities. The financial implications of the pandemic have significantly distorted the budget and Medium Term Financial Strategy. The ongoing impact will continue to be closely monitored, with updates provided in future reports.

6.0 Local Government Finance Settlement

- 6.1 On 17 December 2020, the Government announced the provisional local government finance settlement, referred to herein as the provisional settlement, for 2021-2022. A report to Cabinet on 20 January 2021 outlined the headlines from the settlement including: confirmation of the council tax referendum limit at 1.99% for 2021-2022, confirmation that local authorities with adult social care responsibility could raise an additional 3% in 2021-2022 via the adult social care precept. When Government calculates how much money they give to councils, their expectation is that we will raise council tax by the maximum amount possible – 1.99%, as well as the additional 3% levy to fund adult social care. Not doing so would mean making more cuts to essential services and being unable to deliver on residents' priorities.
- 6.2 They also confirmed the continuation of the new homes bonus scheme for a further year with no new legacy payments, and additional funding for adult and children's social care. The provisional allocation for the Council is £2.7 million.
- 6.3 Further to this, the provisional settlement announced a further tranche of Covid-19 grant funding for 2021-2022 to deal with the cost pressures during the first three months of 2021-2022. The provisional allocation for the Council is £8.7 million. During 2020-2021, the Government also announced a co-payment mechanism for irrecoverable sales, fees and charges income. The provisional settlement announced that this scheme will continue for the first three months of 2021-2022. Based on 2020-2021 irrecoverable

sales, fees and charges income, it is anticipated that this could be in the region of £1.1 million.

6.4 On 4 February 2021, the Secretary of State for the Ministry of Housing, Communities and Local Government gave a written statement on the Final Local Government Finance Settlement 2021-2022, referred to herein as the final settlement. It is anticipated that the final settlement will be debated in the House of Commons on 10 February 2021. The final settlement is in line with the provisional settlement announcement.

6.5 Appendix 1 provides further detail on forecast Council resources.

7.0 Medium Term Financial Strategy – Key Assumptions

7.1 Despite austerity since 2010, the Council has a strong track-record of managing money well, planning ahead and delivering excellent services.

7.2 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy remain under constant review and update.

7.3 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.

7.4 The major budget assumptions used in the preparation of the MTFs are set out in Appendix 2. Appendix 1 provides detail of the changes to growth and inflation and corporate resource assumptions, which are recommended for inclusion in the 2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024.

7.5 It is important to note that whilst recent Government announcements have provided some clarity for the forthcoming financial year, the Council continues to face significant uncertainty over the medium term, and it is particularly challenging to establish a medium term financial strategy beyond 2021-2022. However, work has been ongoing to project a forecast medium term position as detailed in this report. It is projected that the medium term budget deficit could be in the region of £29.6 million over the next three years. In order to project this potential deficit a number of assumptions have been made on the level of resources that will be available to the Council, as detailed in the paragraphs below and Appendix 1. However, given uncertainties surrounding levels of resources for local authorities it is difficult to project the potential resources that will be available to the Council over the medium term period.

7.6 The overall impact of the revisions to the 2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 has been detailed in Table 4 below and in more detail in Appendix 1. However some of the key budget assumptions are detailed in the paragraphs below.

Pay Related Pressures

- 7.7 Detailed work has been undertaken to assess the likely impact of pay related pressures. The projected budget adjustments arising from the combined pay related pressures is detailed in Appendix 1.
- 7.8 In the Spending Review 2020, the Government announced that there would be a pay freeze for public sector workers. Unlike other public sector organisations, the local authority pay award will be agreed at a national level in negotiations between employers and trade unions through the National Joint Council for Local Government Services. In order to be prudent, it is proposed that a pay award contingency totalling £1.4 million is held in a Corporate Contingency in the 2021-2022 budget, this would equate to a 1% pay award. In the event that pay negotiations result in a pay deal that is in excess of this budget provision, the Budget Contingency Reserve would be called upon to fund the shortfall.
- 7.9 The Spending Review 2020 also confirmed that those employees who earn below £24,000 will receive a pay increase of £250 in 2021-2022. Again, such an increase will be negotiated through the National Joint Council for Local Government Services but this level of provision has been provided for in the 2021-2022 budget estimates.

Budget Pressures

- 7.10 A number of emerging pressures have been identified throughout the current financial year and in order to be prudent those pressures have been recognised in the 2021-2022 budget and medium term financial strategy. The key budget pressures reflected are detailed in the paragraphs below whilst a full list of budget pressures incorporated into the budget and medium term financial strategy can be found at Appendix 1.
- 7.11 The approved MTFs already included a provision for National Living Wage increases in relation to external contracts following announcements made by the Government and demographic growth in previous years. As part of the ongoing revenue budget monitoring during 2020-2021, potential pressures have been flagged within Adult Services due to increases in demand for services and cost pressures. Additional budget growth totalling £2 million has therefore been incorporated into the 2021-2022 budget. This will continue to be monitored and reviewed in light of the ongoing Covid-19 pandemic, with updates provided to Councillors as part of the quarterly revenue budget monitoring reports.
- 7.12 In addition to this, emerging pressures within the Housing and Finance were also highlighted through the current financial year due to increased demand for temporary accommodation. In order to be prudent, the 2021-2022 budget has been increased to reflect the costs associated with this demand.
- 7.13 The City of Wolverhampton contains many leafy suburbs with many trees lining our streets with many more located around the perimeter of parks and green open spaces. There has been an increasing number of severe weather events including high rainfall and strong winds as a result of climate change, which when combined increase the likelihood of trees falling which presents a significant risk to public safety and potential

disruption to transport links. In line with the Relighting Our City agenda and the climate focused theme and to mitigate against the risk of trees falling and failing, it is proposed that budget growth of £469,000 be incorporated into the 2021-2022 budget to increase the inspection programme for tree maintenance.

- 7.14 Wolverhampton has seen significant transformation within its Children's Services in recent years. Under the Transforming Children's Services Programme, the Council continues to focus on improving outcomes for children and young people so that the right children have the right support at the right time. Based on the current demand for service provision, it is forecast that approved growth of £700,000 already assumed in the MTFS for Children and Young People in Care can be released.

Efficiencies

- 7.15 As part of the detailed budget review, a number of efficiencies have been identified for 2021-2022 and future years, as detailed in Appendix 1. The efficiencies identified include corporate budget efficiencies 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 budget as a result of efficiencies and reduction in the use of corporate contingencies. It is therefore proposed that the net underspend in 2020-2021 be transferred into a specific reserve to support the 2021-2022 budget strategy.
- 7.16 In addition to this, new efficiencies across directorates have been identified for 2020-2021 totalling £2.1 million. These efficiencies and their impact over the medium term are listed in full in Appendix 1.

Reprofiled Savings

- 7.17 As reported to Cabinet in November 2020, in depth reviews have been undertaken on existing budget reduction and income generation proposals. This has been particularly important in light of the Covid-19 pandemic and changes to the environment in which we currently operate.
- 7.18 It has been identified that £4.4 million of savings will not be delivered in 2021-2022 as originally planned. Of this, £1.2 million relate to staff terms and conditions. In February 2020, it was reported that following the permanent change to employee terms and conditions, which saw the implementation of three days mandatory unpaid leave per year, it was proposed to pause further changes to terms and conditions in 2020-2021, therefore removing the budget reduction target for 2020-2021 pending a review in future years. The Council value the contribution employees make in delivering the priorities of the Council, therefore amending terms and conditions is always a last resort. It is therefore proposed that any further changes to terms and conditions continue to be paused for 2021-2022; therefore, removing the budget reduction target in 2021-2022.

- 7.19 The revision to existing savings proposals, to ensure that they are deliverable over the medium term, have been reflected in the medium term financial strategy. Further detail can be found in Appendices 1.

Corporate Resources

- 7.20 Recent Government announcements have provided some clarity for the forthcoming financial year; however, the Council continues to face significant uncertainty over the medium term, and it is particularly challenging to establish a medium term financial strategy beyond 2021-2022. This is due to the uncertainty regarding potential resources that will be available to the Council over the forthcoming multi-year Spending Review period and the potential additional pressures on income collected from council tax and business rates due to the ongoing pandemic.
- 7.21 In order to project the potential budget challenge faced by the Council, a number of assumptions have been made on the level of resources that will be available to the Council.
- 7.22 It is important to note that at the point information becomes available, it could, consequently, result in alterations to the financial position facing the Council.

Collection Fund assumptions

- 7.23 On 20 January 2021, Cabinet received a report detailing the estimated outturn on the Collection Fund for 2020-2021 which consisted of a projected cumulative deficit in the region of £7.8 million on Council Tax after accounting for the Hardship Fund grant to compensate for council tax reliefs, and a projected cumulative deficit in the region of £9.0 million on Business Rates after accounting for the forecast additional Covid-19 business rates reliefs funded by Section 31 grant. Of this, the Council will be expected to retain a deficit of approximately £15.7 million.
- 7.24 As previously reported, the Covid-19 pandemic has had a significant impact on Wolverhampton. The forecast deficit has arisen as a result of the decline in council tax and business rates collection during 2020-2021, increases in the numbers of Local Council Tax Support claimants, reprofiling in housing growth assumptions and potential business rates appeals arising as a result of potential changes in circumstances.
- 7.25 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).
- 7.26 In addition to this, in the Spending Review 2020, £762 million of funding was announced to compensate local authorities for 75% of irrecoverable losses from council tax and business rates revenues in 2020-2021, that would otherwise need to be funded through local authority budgets in 2021-2022 and later years. A further £670 million of funding was also announced to compensate local authorities with the additional costs of providing Local Council Tax support in 2021-2022, resulting from increased unemployment. The indicative allocations were released on 11 January 2021, which confirms the Council's provisional allocation is in the region of £3.3 million. This will be offset by increased

costs of providing local council tax support. If final allocations are less than the amounts assumed in the MTFS, then the council would need to identify additional efficiencies to meet any budget deficit.

- 7.27 The Government have also announced that there would be a freeze on the business rates multiplier for 2021-2022 and local authorities will be compensated for the shortfall in income via a section 31 grant.
- 7.28 The MTFS assumptions have been updated to reflect the potential resources available to the Council over the medium term period as a result of the announcements above.

Social Care Grants

- 7.29 On 20 January 2021, Cabinet were informed that the Government had announced that additional grant funding totalling £300 million would be made available to local authorities in 2021-2022 for adult and children's social care. The final settlement, due to be debated on 10 February confirms the Council's allocation at £2.7 million for 2021-2022.
- 7.30 In addition to this, the Government have also confirmed the roll forward of the 2019-2020 Social Care Support, Winter Pressures and the Improved Better Care Fund grants. The Council's final allocations total £23.0 million, this is in line with the current assumptions built into the MTFS.

Covid-19 Grants

- 7.31 During 2020-2021 the Government have allocated a number of grants to help local authorities address the pressures they are facing in response to the ongoing Covid-19 pandemic. During 2020-2021 the Council has received four tranches of the Covid Emergency Grant Funding totalling £25.5 million. The provisional settlement announced a further tranche of funding for 2021-2022 to deal with the cost pressures during the first three months of 2021-2022. The provisional settlement confirms the Council's provisional allocation is £8.7 million. This grant allocation and corresponding Covid-19 cost pressures have been reflected in the 2021-2022 budget.
- 7.32 In 2020-2021, Government also announced a co-payment mechanism for irrecoverable sales, fees and charges income. The provisional settlement announced that this scheme will continue for the first three months of 2021-2022. The actual amount is not known and will depend on actual income losses and be subject to a grant claim. At this stage, an assumption has been made on the potential cost pressures the Council will face and irrecoverable income payment that may be received; this has been reflected in the MTFS.
- 7.33 As detailed above, it is difficult to forecast the impact that the Covid-19 pandemic will have over the medium term, however assumptions have been made on loss of income due to sales, fees and charges for the first three months of 2021-2022, in line with the provision of Government grant support. In addition, cost pressures have been reflected for a longer term period in order to be prudent. The Government have stated that they will keep the impact on local authorities under review. If final allocations are less than the

amounts assumed in the MTFs, then the council would need to identify additional efficiencies to meet any budget deficit

8.0 Council Tax and Local Council Tax Support Scheme

- 8.1 The Council Tax Base and NDR (Business Rates) Net Rate Yield 2021-2022 report was presented to Cabinet on 20 January 2021. Cabinet approved the council tax base for 2021-2022 at 63,580.55 Band D equivalent properties. This is a reduction in the council tax base when compared to 2020-2021, however it assumes a continued trajectory on Local Council Tax Support claimants, lower collection rates and reprofiling in housing growth assumptions.
- 8.2 In the provisional settlement, the Government announced £1 billion of additional funding to support social care. This includes £300 million of new grant (as detailed in section 7.29), and an increase in the Adult Social Care (ASC) precept flexibility that local authorities can levy from 2% to 3%. This is in addition to the council tax referendum limit and is to be used for adult social care only. Further to this, in the provisional settlement the Government confirmed the council tax referendum limit at 2%. This would therefore enable the Council to increase Council Tax by a maximum of 4.99% in 2021-2022; the sum of 1.99% council tax plus the 3% adult social care precept. When Government calculates how much money they give to councils, their expectation is that we will raise council tax by the maximum amount possible – 1.99%, as well as the additional 3% levy to fund adult social care. Not doing so would mean making more cuts to essential services and being unable to deliver on residents' priorities.
- 8.3 Taking account of the above, this report recommends an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 3%, totalling 4.99%.
- 8.4 The resulting impact on the level of the Council element of Council Tax for a Band D property in 2021-2022 is detailed in the table below, whilst details of the impact on all bands can be found in Appendix 3.

Table 1 – Council element of Council Tax for Band D Property in Wolverhampton

Band D	£
2020-2021 Council Element of Council Tax (including adult social care)	1,681.58
1.99% increase	33.46
3% Adult Social Care Precept	50.45
	1,765.49

- 8.5 It is projected that income from Council Tax will rise in subsequent years, based upon the latest collection rates and tax base. Projections in the MTFs assume that Council Tax will continue to increase by 1.99% in each financial year, whilst the tax base is anticipated to rise by 1%. The MTFs also assumes that the Government will no longer allow local

authorities with adult social care responsibilities to raise additional funds via the adult social care precept above the amount already built into the MTFs.

Council Tax Support Scheme

- 8.6 Since the abolition of the national council tax benefit scheme in 2013, the Council has been responsible for designing its own scheme of council tax support.
- 8.7 On 11 November 2020, Cabinet (Resources) Panel approved proposals to revise the scheme subject to consultation with the West Midlands Combined Authority and the Fire and Police precepting bodies. Consultation has now taken place and it is recommended that Cabinet approve the changes to the Council Tax Support scheme for 2021-2022, as detailed below:
- to allow claimants who are living in temporary accommodation, where the Council has made the accommodation available to the renter, to have an award of council tax support from the start of their accommodation regardless of the date of application;
 - to bring forward the date a council tax support claim is paid, to Universal Credit Claimants, to the date of their Universal Claim.
- 8.8 Risk Based Verification (RBV) was adopted by the Council in 2012, as a method of applying different levels of checks, according to the risk of fraud and/or error, to support the assessment of new Housing Benefit and Council Tax Support claims to:
- improve processing times
 - target resources more effectively, and
 - enable a shortened processing time for those claims determined as low risk
- 8.9 Since 2012, there has been continued improvement in the way the Council obtain and verify information, which has reduced the onus on the customer to provide evidence.
- 8.10 The current RBV system provider has announced that they are no longer supporting the product. It is therefore proposed that Cabinet approve that the external provider of Risk Based Verification (RBV) is no longer beneficial to the service and that the Council cease to operate the external RBV system from 31 March 2021, using an in-house RBV approach to the verification of new Housing Benefit and Council Tax Support claims.
- ### **9.0 Budget Risk**
- 9.1 The table below provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology. The overall level of risk associated with the 2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 is assessed as Red.

Table 2 – General Fund Budget Risks 2021-2022 to 2023-2024

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, and National Living Wage.	Amber
Service Demands	Risks that might materialise as a result of demands for statutory services outstretching the available resources. This particularly applies to adults and childrens social care.	Red
	Risks that might materialise as a result of demands for non-statutory services outstretching the available resources.	Amber
Identification of Budget Reductions	Risks that might materialise as a result of not identifying budget reductions due to limited opportunity to deliver efficiencies.	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 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
Reduction in Income and Funding	Risks that might materialise as a result of the multi-year Spending Review, and reforms to Business Rates Retention and the Fair Funding Review.	Red
	Risks that might materialise as a result of income being below budgeted levels, claw back of grant, or increased levels of bad debts.	Amber

	The risk of successful appeals against business rates.	
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 due to structural uncertainties including the impact of exiting the European Union.	Red
	Risks that might materialise as a result of changes to Government policy including changes in VAT and taxation rules.	Red
Covid-19	Risk that the financial implications of Covid 19 including the Council's recovery will exceed the grant allocations awarded by Government and place further financial pressures on the council financial position over the medium term.	Red

10.0 Updated Budget and Medium Term Financial Strategy

2021-2022 Budget

- 10.1 The net budget requirement for 2021-2022 for the General Fund Services is £258.5 million. In the opinion of the Director of Finance (Section 151 Officer) the 2021-2022 budget estimates are robust. The Council's proposed budget for 2021-2022 does not require the use of general reserves in order set a balanced budget.
- 10.2 The Council's proposed budget for 2021-2022 is shown at Table 3.

Table 3 – Draft 2021-2022 Controllable Budget

Division	2021-2022 Draft Net Controllable Budget £000
Adult Services	71,747
Children's Services	52,342
Chief Executive	187
City Assets and Housing	10,448
City Environment	30,305
Corporate Accounts	50,710

Division	2021-2022 Draft Net Controllable Budget £000
Communications	898
Deputy Chief Executive	454
Education and Skills	1,339
Finance	14,432
Governance	9,235
Public Health & Wellbeing	1,481
Regeneration	6,503
Strategy	8,416
Total Net Budget Requirement	258,497

Medium Term Financial Strategy

- 10.3 Table 4 details the MTFs projections for the period to 2023-2024. It incorporates extensive budget preparation work that has been ongoing in recent months for the period up to 2023-2024, in addition to those adjustments arising as a result of changes in assumptions, as detailed in this report and corresponding appendices.
- 10.4 The table details incremental changes to forecast expenditure, starting from the base position of the 2020-2021 budget. The forecast expenditure is then compared with anticipated resources available to arrive at the projected deficit.
- 10.5 The Council is now faced with finding further projected budget reductions estimated at £25.4 million in 2022-2023, rising to £29.6 million over the medium-term period to 2023-2024. Work to develop budget reduction and income generation proposals for 2022-2023 onwards in line with the Five Year Financial Strategy will continue.
- 10.6 Due to the uncertainty the Council currently faces, it is particularly challenging to establish a MTFs beyond 2021-2022. Expenditure forecasts include estimates of growth in various areas, including in social care due to demand and the rising costs of services. These estimates will continue to be reviewed in light of the ongoing Covid-19 pandemic on service provision. Any change to these estimates could have a significant impact on the forecast budget deficit over the medium term.
- 10.7 A number of assumptions have been made with regards to the level of resources that will be available to the Council as detailed above. It is important to note that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming multi-year Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. The current assumptions in respect to grants and tax raised locally are detailed above. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and further increase the budget deficit forecast over the medium term.

- 10.8 It is proposed an update on progress on tackling the projected deficit is reported to Cabinet in July 2021.
- 10.9 It is important to note that the updated projected budget deficit assumes the achievement of budget reduction, income generation and financial transaction proposals amounting to £4.3 million over the three-year period from 2021-2022 to 2023-2024. Having identified budget reductions in excess of £235.0 million over the last ten financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.

Table 4 – Medium Term Financial Strategy 2021-2022 to 2023-2024

	2021-2022	2022-2023	2023-2024
	£000	£000	£000
Previous Years Net Budget Brought Forward	248,223	258,497	272,625
Increasing / (Decreasing) Cost Pressures			
- Pay Related Pressures	3,774	5,249	5,426
- Treasury Management	21	3,879	1,000
- Budget Growth	12,548	716	4,877
- Budget Reduction, Income Generation & Financial Transactions	(4,949)	3,164	(2,530)
- Net Impact on changes to specific grants	(1,120)	1,120	-
Net Budget (Before Use of Resources)	258,497	272,625	281,398
Projected Corporate Resources			
- Council Tax (including Adult Social Care Precept)	(112,251)	(115,560)	(119,039)
- Enterprise Zone Business Rates	(1,530)	(1,490)	(1,450)
- Top Up Grant	(26,702)	(26,702)	(26,702)
- Business Rates (net of WMCA growth payment)	(67,477)	(68,514)	(69,905)
- New Homes Bonus	(1,017)	(265)	-
- Section 31 Grant – Business Rates support	(11,468)	(11,468)	(11,468)
- Council Tax Support Grant	(3,297)	-	-
- Collection Fund (CF) Deficit 2019-2020	1,745	-	-
- Collection Fund Deficit 2020-2021 (spread over 3 years)	4,671	4,671	4,671
- Irrecoverable CF Losses Grant (spread over 3 years)	(2,233)	(2,233)	(2,233)
- One-off funding streams to offset Collection Fund Deficit	(4,064)	-	-
- Improved Better Care Fund and Social Care Grants	(23,016)	(23,016)	(23,016)
- Social Care Grant 2021-2022	(2,697)	(2,697)	(2,697)
- Covid-19 Emergency Grant Funding	(8,707)	-	-
- Lower Tier Services Grant	(454)	-	-
	(258,497)	(247,274)	(251,839)
Projected Budget Annual Change in Budget Deficit / (Surplus)	-	25,351	4,208
Projected Cumulative Budget Deficit	-	25,351	29,559

10.10 As detailed in paragraphs 2.6 and 3.6, Covid-19 has significantly distorted the budget and it is difficult to project the exact cost implications of the pandemic. However, current assumptions, after taking into account the grants specifically for Covid-19, estimate that the net impact of the pandemic is in the region of £6.4 million. Table 5 below takes those proposals which are listed under to corporate resources, budget growth and inflation, and budget reduction targets as detailed in Appendix 1, which are as a result of the pandemic as detailed in the table below.

Table 5 – Changes in the Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024

	2021-2022 £000
Projected Budget Challenge as at February 2020	15,531
Net Changes to Corporate Resources	(12,550)
Changes to Growth and Inflation	
- Budget growth and inflation	1,769
- Efficiencies and new proposals	(14,386)
- Revisions to budget reduction targets	3,245
- Net impact of Covid	6,391
Annual Change	(2,981)
Projected deficit after revisions	-

11.0 Update on Reserves

- 11.1 Due to the projected financial challenges facing the Council over the medium term, combined with the budget risks, reserves should only be called on in very specific circumstances and are not a viable funding option to reduce the projected budget deficit over either the short or longer term.
- 11.2 The Council's General Fund Balance stands at £13 million. The level of reserve is approximately 5% of the 2021-2022 net budget which is in line with recommended best practice. As detailed in paragraph 10.1 the Council is able to set a balanced budget for 2021-2022 without the use of General Fund Reserves.
- 11.3 Emphasis continues to be placed on identifying budget reduction and income generation proposals to meet the potential budget deficit over the medium term as detailed in Table 4 without calling on general reserves.
- 11.4 Specific reserves represent monies set aside by the Council to fund future expenditure plans. In the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial

year. Consideration has been given to the movement in the levels of reserves over the last few years, the anticipated future drawdown of specific reserves and the level of Corporate Specific Reserves as detailed below in addition to the General Fund Balance stated above).

- 11.5 The table below details the level of the specific reserves held by the Council at 31 March 2020 and the anticipated balances at 31 March 2021. In addition, there are other specific reserves which are administered by the Council but that have a specific criteria for allocation.

Table 6 – Specific Reserves by Division

Division	Actual Balance as at 1 April 2020 £000	Forecast Net Use/(Contribution) 2020-2021 £000	Forecast Balance as at 31 March 2021 £000
Adult Services	(1,200)	600	(600)
Children's Services	(196)	3	(193)
City Assets and Housing	(125)	72	(53)
City Environment	(750)	44	(706)
Corporate	(29,025)	5,153	(23,872)
Finance	(2,447)	200	(2,247)
Governance	-	(190)	(190)
Public Health	(4)	-	(4)
Regeneration	(1,610)	688	(922)
Total	(35,357)	6,570	(28,787)

- 11.6 The main Corporate Reserves set out in the table below, and included in the overall Corporate total in the table above include the reserves which are specifically set aside to provide capacity for developments to enable financial sustainability.

Table 7 – Main Corporate Reserves

Corporate Reserves	Actual Balance as at 1 April 2020 £000	Forecast Net Use/(Contribution) 2020-2021 £000	Forecast Balance as at 31 March 2021 £000
Efficiency Reserve	(5,393)	475	(4,918)
Budget Strategy Reserve	(7,569)	-	(7,569)
Transformation Reserve	(1,756)	693	(1,063)
Budget Contingency Reserve	(3,571)	188	(3,383)
Total	(18,289)	1,356	(16,933)

12.0 Funding Formula for Schools

- 12.1 In April 2018, a new national schools funding formula was implemented, and 2018-2019 was the first year of a transitional period of implementation of a National Funding Formula (NFF) for schools.
- 12.2 2021-2022 is a continuation of this implementation period and Local Authorities are still required to set a local funding formula. In December 2020, the Department for Education announced the Schools Block DSG allocation for 2021-2022.
- 12.3 The agreed local funding formula for 2020-2021 fully adopted the same factors as the National Funding Formula. Schools' forum received and approved a report in January 2021 stating that this was again affordable within allocations for 2021-2022.
- 12.4 In line with the Schools Revenue Funding 2020-2021 Operational Guidance, delegation of authority to the Cabinet Member for Resources and Cabinet Member for Education and Skills, in consultation with the Director of Finance and Director of Children's and Adult Services is sought to approve proposed changes to local funding formula including method, principles and rules adopted.

13.0 Evaluation of alternative options

- 13.1 In determining the proposed 2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024, consideration has been made to the deliverability of budget reduction and income generation proposals and budget pressures. If we were to not implement the budget strategy as proposed in this report, alternative options would need to be identified in order for the Council to set a balanced budget for 2021-2022.

14.0 Reasons for decisions

- 14.1 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

15.0 Financial implications

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

[MH/09022021/Z]

16.0 Legal implications

- 16.1 The Council's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities and the likelihood of achieving any budget reduction proposals.

- 16.2 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.
- 16.3 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.
- 16.4 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).
- 16.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '...make a report ... if it appears to her 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.
- 16.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to her 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.
- 16.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2021-2022.

[TS/08022021/R]

17.0 Equalities implications

- 17.1 The council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives.

- 17.2 It is important to note, that this report provides a cumulative equality analyses response to the council's efficiency proposals set out within this report.
- 17.3 In the body of the report, we refer to efficiency proposals that are being put forward for approval and as such, those discussed here, in the large majority of cases, at this stage, there are no equality impact concerns.
- 17.4 This is a strategic analysis only. It will therefore be necessary to bring forward detailed proposals for each savings options, and where proposals are not yet complete and/ or, as more specific details of budget reduction and efficiency saving proposals emerge, (which do have an equality impact) each option will then be subject to a full equality analysis. It is only then we can identify with possible disproportionate impacts in relation to groups with protected characteristics. The EIA's will look to address potential mitigation where applicable and undertake specific consultation where required.
- 17.5 Where specific proposals are not yet complete, they will be dealt with via separate reports.
- 17.6 In conclusion, the council continues to make every effort to protect the most vulnerable as far as possible and respond to its duties under the Equality Act 2010. However, this strategic EIA recognises the significant challenge which the financial position presents for Wolverhampton. We will maintain a strong commitment to equality and ensure that EIA's undertaken at each savings proposal helps us to arrive at an informed decisions and to make the best judgement about how to target our resources effectively and fairly.
- 17.7 Councillors must continue to have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions. By considering the equalities evidence contained in the analysis above, in tandem with this report, Councillors will be in a position to comply with the requirements of the Duty and Act as well as their wider responsibilities in terms of setting a budget

18.0 All other Implications

- 18.1 The Covid implications are detailed in the body of the report.
- 18.2 Any human resource implications will be managed in accordance with the Councils HR policies and processes.

19.0 Schedule of background papers

- 19.1 [2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024](#), report to Cabinet on 19 February 2020 and Full Council on 4 March 2020
- 19.2 [2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024](#), report to Cabinet on 29 July 2020.
- 19.3 [2020-2021 Budget and Medium Term Financial Strategy 2020-2021 to 2023-2024](#), report to Cabinet on 11 November 2020

19.4 [Council Tax Base, and Business Rate \(NNDR\), Net Rate Yield 2021-2022, Provisional Local Government Finance Settlement Update and Outcome of Scrutiny Review](#), report to Cabinet on 20 January 2021

19.5 [Collection Fund Estimated Out-turn 2020-2021](#), report to Cabinet on 20 January 2021.

20.0 Appendices

20.1 Appendix 1 - Medium Term Financial Strategy 2021-2022 to 2022-2024– Update on Key Assumptions

20.2 Appendix 2 - Budget Preparation Parameters

20.3 Appendix 3 - Council Element of Council Tax for 2021-2022 per Band

20.4 Appendix 4 - Collection Fund Estimated Outturn 2020-2021