

## Medium Term Financial Strategy 2021-2022 to 2023-2024 – Update on Key Assumptions

### 1.0 Introduction

- 1.1 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy remain under constant review and update. The body of the report highlights the main assumptions that underpin the MTFs. The following paragraphs provide further detail of updated assumptions in a number of areas.

### Budget Growth and Pressures/Changes to Growth and Inflation Pay Related Pressures

- 1.2 Detailed work has been undertaken to assess the likely impact of the National Living Wage, increments, proposed levels of pay award, increases in employer's National Insurance contributions, employer's pension contributions and auto-enrolment. The projected budget adjustments arising from the combined pay related pressures is detailed in Table 1, with further analysis provided in the paragraphs below.

**Table 1 – Pay Related Pressures**

	2021-2022 £000	2022-2023 £000	2023-2024 £000
Pay Award, Employers Pension, National Insurance and Annual Increments	3,774	5,249	5,426

### Pay Award

- 1.3 As detailed in paragraphs 7.7 to 7.9 of the report, 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.

### Employer's Pension Payments

- 1.4 In 2019-2020, the Council in the context of its role as a participating employer within the West Midlands Pension Fund (the Fund), was subject to a triennial actuarial review which set the employer pension contribution requirements over the period from 2020-2021 to 2022-2023. Following confirmation of payment arrangements with the Fund in February 2020, it is intended that the Council will make an annual payment in April of each year for the future services contributions in order to reduce the total costs and secure budget reductions. This is reflected in the budget forecasts in this report.
- 1.5 In accordance with delegated authority, the Cabinet Member for Resources in consultation with the Director of Finance will continue to consider further opportunities to accelerate contribution payments to secure additional budget reductions.

### Other Pay Costs

- 1.6 Further to this, detailed work has been undertaken to assess the likely impact of Auto Enrolment, employer's National Insurance contributions and incremental increases.

### Budget Pressures

- 1.7 Table 2 below details budget growth that has been incorporated into the MTFs.

**Table 2 – Budget Pressures**

	2021-2022 £000	2022-2023 £000	2023-2024 £000
Inflationary Pressures	2,706	2,626	2,627
Demographic and Demand Pressures	9,842	(1,910)	2,250
<b>Total</b>	<b>12,548</b>	<b>716</b>	<b>4,877</b>

- 1.8 Inflationary pressures include: utilities, the impact of the increases in the National Living Wage (NLW) in relation to external contracts and cost pressures within the Waste and Recycling Service.
- 1.9 In paragraphs 7.10 to 7.14 of the report, a number of key budget pressures in Adult Services, Housing and Finance, City Environment and Children's Services are discussed in more detail.
- 1.10 A full list of the changes to budget growth and emerging budget pressures that have been reflected in the draft budget and MTFs, in order to be prudent, is provided in the table below:

**Table 3 – Budget Pressures**

	2021-2022 £000	2022-2023 £000	2023-2024 £000
Adult Services pressures	2,000	-	-
Housing – temporary accommodation – impact on housing and housing benefit subsidy grant	1,160	-	-
Relighting Our City	510	-	-
Tree Maintenance	469	-	-
Multi Agency Safeguarding Hub/Advanced Mental Health Practitioner	136	-	-
Communications – city marketing funded by income generation as identified in Table 4	100	-	-
Finance	56	-	-
Education	60	-	-
Policy and Strategy	108	-	-
City Environment – Markets	180	-	-
City Environment – Waste Services	500	-	-
Children's Services – reduction in growth	(700)	-	-
Pay award – reduction in forecast following Spending Review announcement	(1,000)	(250)	(250)

Corporate contingency for Corporate Landlord/pay related adjustments	(1,300)	-	-
<b>Total</b>	<b>2,279</b>	<b>(250)</b>	<b>(250)</b>

1.11 In addition to this, the MTFS has been updated to reflect the forecast treasury management budget requirement over the medium term.

### Efficiencies

1.12 As part of the detailed budget review, a number of efficiencies have been identified for 2021-2022 and future years. Corporate budget efficiencies in 2021-2022 have been identified, as detailed in paragraph 7.15, of the report and shown in the table below.

1.13 In addition to this, new efficiencies across directorates have been identified for 2021-2022 totalling £2.1 million. These efficiencies and their impact across financial years are also listed in full in the table below

**Table 4 –Efficiencies**

	2021- 2022 £000	2022- 2023 £000	2023- 2024 £000
Underspends from 2020-2021 reported at Q2 on 9 December 2020	(2,164)	2,164	-
Reduction in use of corporate contingencies in 2020-2021	(1,950)	1,950	-
Targeted underspends from 2020-2021 (As outlined in the Budget Report to Cabinet on 11 November 2020)	(1,000)	1,000	-
Treasury Management - rephasing	(4,500)	3,500	1,000
Efficiencies across corporate budgets	(2,700)	45	-
Use of Revenues and Benefits Strategy Reserve	-	(2,000)	2,000
Children's Services – one-off underspend on Deprivation of Liberty Safeguards	(230)	230	-
Children's Services – efficiencies in family support budgets for Children's Social Care due to improved budget management processes	(150)	150	-
City Environment – Network Management	(200)	-	-
Children's Services – Intensive Family Support efficiencies	(50)	-	-
Children's Services – Director of Children's Services efficiencies	(250)	-	-
Finance budget efficiencies including bank charges and enhanced pension budget reductions	(300)	-	-
Public Health - general fund efficiencies	(62)	-	-
Communications - sponsorship events / income generation web services	(28)	-	-
Communications - income generation from digital signs (offset by expenditure above)	(100)	-	-
Governance - income from external legal / reduction in external costs	(159)	-	-
City Environment - additional income from purple bins	(100)	-	-
City Environment - fleet efficiencies	(100)	-	-

	2021- 2022 £000	2022- 2023 £000	2023- 2024 £000
City Assets - Asset Management	(120)	120	-
City Assets - Facilities Management	(53)	-	-
Regeneration efficiencies	(170)	-	-
<b>Total</b>	<b>(14,386)</b>	<b>7,159</b>	<b>3,000</b>

### Re-profiled Savings

- 1.14 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. It has been determined that £4.4 million of savings will not be delivered in 2021-2022 as originally planned. More details can be found in paragraph 7.17 to 7.19 of the report.
- 1.15 The table below provides a list of the financial impact of the proposed revisions.

**Table 5 – Revisions to Savings Proposals**

	2021-2022 £000	2022-2023 £000	2023-2024 £000
<b>Re-phasing of proposals</b>			
- Staff Terms and Conditions	1,200	(1,200)	-
- Delivering Independent Travel	315	(315)	-
- Wolves at Work	400	(400)	-
- Regeneration Efficiencies	350	-	(350)
<b>Revisions – Deletion of budget reduction proposals</b>			
- WV Active Business Model Review	650	200	300
- Depot Review	500	-	-
- City Environment Energy from Waste contract	150	-	-
- Customer Services	150	500	-
- Adult Social Care – 2020-2021 target	450	-	-
- Efficiencies through contract procurement	250	-	-
- Adult Education	30	-	-
<b>Revised total</b>	<b>4,445</b>	<b>(1,215)</b>	<b>(50)</b>

- 1.16 Following in-depth reviews of the budget reduction proposals, it is proposed that these changes be reflected in the Council's medium term financial strategy in order to be

prudent. This is largely as a result of increases in demand for service provision and redirection of employee resources linked to the ongoing Covid-19 pandemic.

### Corporate Resources

- 1.17 As detailed in paragraphs 7.20 to 7.22 of the report, 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. A number of assumptions have been made on the level of resources that will be available to the Council.
- 1.18 On 20 October 2020, HM Treasury confirmed that a one-year Spending Review would take place at the end of November 2020 in order to prioritise the Government response to Covid-19. Further to this, as detailed in section 6 of the report, on 17 December 2020 the Government announced the provisional local government finance settlement; details of this were reported to Councillors in January 2021. On 4 February 2021, a written statement on the Final Local Government Finance Settlement 2021-2022 was published, it is anticipated that the final settlement will be debated in the House of Commons on 10 February 2021. The changes in resources assumptions arising as a result of the announcements and the detailed work that has been ongoing is detailed in the paragraphs below.

### Collection Fund Estimated Outturn

- 1.19 Further details regarding the assumptions made on the Collection Fund estimated outturn and corresponding Government announcements can be found in paragraphs 7.23 to 7.28 in the report, whilst the table below provides details of the collection fund deficit that will be retained by the Council.

**Table 7 – Retained Element of Collection Fund Deficit**

Elements of Collection Fund	Deficit	Retained	Retained Deficit
	£000	%	£000
Council Tax	7,759	88.3%	6,848
Business Rates	9,002	99.0%	8,912
<b>Total</b>	<b>16,761</b>		<b>15,760</b>

- 1.20 Due to collection fund accounting treatment, any Collection Fund losses from 2020-2021 will not impact upon the Council's budget until 2021-2022.
- 1.21 Furthermore, 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. Based on the in-year collection fund estimated outturn, it is forecast that this compensation could be in the region of £2.2 million annually from 2021-2022 to 2023-2024. 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.

- 1.22 In November 2020, it was 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. In addition to this, following a review of the anticipated level of reserves and grant balances, it is proposed that historic business rates reconciliation grant balances totalling £2.5 million be released to also address some of the pressures.

### **Business Rates**

- 1.23 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Ministry for Housing, Communities and Local Government (MHCLG) by the deadline of 31 January 2021. In October 2016, Cabinet approved that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority (WMCA), will participate in a business rates retention pilot from April 2017, on a no financial detriment basis. The continuation of this arrangement to 2021-2022 was confirmed in the provisional settlement in December 2020. As a result of entering into this pilot, the Council will retain 99% of the business rates but no longer receive Revenue Support Grant and instead receive a Top Up Grant adjustment to account for the net effect of the changes.
- 1.24 On 20 January 2021, Cabinet approved the Collection Fund Business Rates Net Yield for 2021-2022 at £68.9 million. Of the £68.9 million net rate yielded by business rates forecast to be collected in 2021-2022 the Council would retain in the region of £68.2 million under the 99% business rate retention scheme pilot. The estimate of net rates payable in 2021-2022 assumes continued pressure on business rates collection, including the potential for further business rates appeals.
- 1.25 There are a number of Business Rates policies that the Government have stipulated for which the Council is reimbursed through Section 31 of the Local Government Act 2003. This includes compensation for a freeze on the business rates multiplier in 2021-2022. Overall, Section 31 grant income for business rates policies totalling £11.5 million is projected for 2021-2022 based upon the NNDR1 form returned to MHCLG by 31 January 2021.
- 1.26 On 3 February 2021, the Financial Secretary to the Treasury made a written ministerial statement to Parliament in which it asked local authorities to consider the timing of business rate billing pending the Budget Statement on 3 March 2021. The Budget is expected to provide an update on the next phase of plans to tackle the pandemic, protect jobs and support business.

- 1.27 One part of the West Midlands Devolution Deal included the WMCA receiving the real terms growth in the central share of business rates, which came into effect from 1 April 2016 onwards. This was the share that was previously held by central government.
- 1.28 There is some complexity in identifying the true business rates growth between years due to business rates appeals and the 2017 revaluation, however an approach to allocate the growth in the central share for 2017-2018 to 2020-2021 has been agreed with the WMCA. The assumed growth of £7.5 million attributable to the WMCA in 2020-2021, in line with the Investment Plan assumptions, has been apportioned for each authority pro rata to the aggregate Rateable Value at the start of the year, resulting in a contribution from Wolverhampton in the region of £564,000 (in 2019-2020 the contribution was £450,000).
- 1.29 The basis for growth assumptions and distribution for 2021-2022 has yet to be agreed, in light of the ongoing Covid-19 pandemic and the impact on business rates collection. It is therefore proposed that Cabinet delegate authority 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 for 2021-2022 and future years to be passported to the WMCA.
- 1.30 It is important to note, in order to be prudent, the current level of business rates retention (99%) for the Council has been assumed over the medium term period to 2023-2024, with only inflationary growth in the business rates multiplier assumed in the MTFS.
- 1.31 It is envisaged that the Fair Funding Review and Business Rates Retention reforms will be addressed as part of a multi-year Spending Review, at such point that is announced. The Government aim to move to 75% business rate retention for all local authorities. Levels of funding will therefore change if this proposal is realised, however a corresponding adjustment against the level of Top Up grant will also be realised.

### **Council Tax**

- 1.32 In January 2021, Cabinet approved the council tax base for 2021-2022 at 63,580.55 Band D equivalent properties. Section 8 in the report provides further details on Government announcements regarding council tax and the adult social care precept.
- 1.33 The report recommends an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 3%, totalling 4.99%. This would result in a council tax for council services in 2021-2022 of £1,765.49 for a Band D property in Wolverhampton. 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.

## **Grants**

- 1.34 Paragraphs 7.29 to 7.33 in the report provide further details on grant funding for Social Care and Covid-19, announced as part of the provisional settlement for 2021-2022.

### **Lower Tier Services Grant**

- 1.35 The Government have also announced a new Lower Tier Services grant to local authorities responsible for delivering lower tier services, such as council tax collection, building regulations, parking, housing services, environmental health, recreation and refuse collection. The Council's provisional allocation is £454,000. It is anticipated at this stage that this grant will only be available in 2021-2022.

### **New Homes Bonus**

- 1.36 The Government have announced the continuation of the New Homes Bonus scheme for a further year with no new legacy payments.
- 1.37 The Council's provisional allocation for 2021-2022 has been announced at £1.017 million, which includes an additional £449,000 for 2021-2022. The MTFS did not assume any additional New Homes Bonus being awarded for growth from 2021-2022 onwards therefore the £449,000 allocation represents additional income to the budget for 2021-2022.

### **Top Up Grant**

- 1.38 As detailed above, the Council is part of the West Midlands pilot for 100% business rates retention and will therefore continue to no longer receive Revenue Support Grant but receive an amended Top Up Grant to reflect the business rates retention model. Top Up Grant for 2021-2022 has been uplifted by inflation, this is an increase of £124,000, above current the assumptions previously built into the MTFS, this takes the 2021-2022 allocation to £26.7 million. The MTFS assumes the continuation of grant at this level for future years to 2023-2024.

### **Section 31 Grant – Business Rates Retention**

- 1.39 Section 31 Grant compensates the Council for an element of mandatory business rates reliefs and the cap on inflationary increases on the business rates multiplier. Section 31 grant income totalling £11.5 million is projected for 2021-2022 based upon the NNDR1 form returned to MHCLG by 31 January 2021.
- 1.40 The MTFS currently assumes that this grant will continue at the 2021-2022 level over the medium term period to 2023-2024.

### **Capital Receipts Flexibilities and Other One-Off Funding Sources**

- 1.41 In 2016-2017 the Government allowed councils to use new capital receipts from April 2016 to March 2019 to pay for transformation work that is designed to make revenue savings. The provisional settlement 2018 announced the continuation of this flexibility for a further three years.

- 1.42 On 16 January 2018, Cabinet (Resources) Panel approved that capital receipts flexibilities are utilised beyond 2018-2019 to enable further transformation of services to deliver efficiencies.
- 1.43 On 31 July 2019, Cabinet approved the draft budget strategy which included capital receipts and other one-off funding sources totalling £5 million in 2021-2022 respectively.
- 1.44 The Capital Programme, as presented to Councillors for approval at this meeting, includes assumptions about the level of capital receipts to be generated in 2021-2022 and the use of capital receipts to pay for revenue costs of transformational projects that are designed to make revenue budget reductions. This is also reflected in the MTFS.
- 1.45 Throughout the year, capital receipts generated will be reviewed and assessed to ensure that capital receipts are applied in the most effective way.
- 1.46 The overall impact of the revisions to the Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024, arising as result of the items detailed in the paragraphs above, have been reflected in the table below.

**Table 9 - Draft Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024**

	2021-2022 £000	2022-2023 £000	2023-2024 £000
<b>Previous Years Net Budget Brought Forward</b>	248,223	258,497	272,625
<b>Increasing / (Decreasing) Cost Pressures</b>			
- 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	-
<b>Net Budget (Before Use of Resources)</b>	<b>258,497</b>	<b>272,625</b>	<b>281,398</b>
<b>Projected Corporate Resources</b>			
- 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

	2021-2022 £000	2022-2023 £000	2023-2024 £000
- 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)	-	-
	<b>(258,497)</b>	<b>(247,274)</b>	<b>(251,839)</b>
<b>Projected Budget Annual Change in Budget Deficit / (Surplus)</b>	-	<b>25,351</b>	<b>4,208</b>
<b>Projected Cumulative Budget Deficit</b>	-	<b>25,351</b>	<b>29,559</b>

- 1.47 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.
- 1.48 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 of the report, 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 of the report. This cost pressure has been met from other efficiencies identified across the Council.
- 1.49 If the impact of the pandemic continues over 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

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Term Financial Strategy. The ongoing impact will continue to be closely monitored, with updates provided in future reports.