

Report title	Draft Budget and Medium Term Financial Strategy 2022-2023 to 2023-2024	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Ian Brookfield Leader of the Council	
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 Tel Email	Director of Finance 01902 550478 Claire.nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	8 October 2021

Recommendations for decision:

The Cabinet is recommended to approve:

1. The updated draft budget strategy for 2022-2023 to 2023-2024.
2. That work continues to further develop proposals and further review the assumptions in the Medium Term Financial Strategy (MTFS), in order to ensure that a balanced budget can be set for 2022-2023 and future years.

Recommendations for noting:

The Cabinet is asked to note:

1. The Draft Budget and Medium Term Financial strategy remains aligned to the Council's priorities. The Wolves at Work 18-24 –Youth Employment report on this same agenda demonstrates the alignment of budgets to priorities and seeks approval to lead on developing and resourcing a comprehensive programme of targeted intervention to support young people currently claiming benefits and aged between 18-24, into sustainable employment, apprenticeships, education and training.

2. That the Council needs the Government to provide confirmation on future years funding as soon as possible, in order to ensure that the Council has a clear direction of funding available over the medium term.
3. That, despite austerity since 2010, the Council has a strong track record of managing money well, planning ahead and delivering excellent services. The financial implications of the pandemic have significantly distorted the Draft Budget and Medium Term Financial Strategy.
4. That, a number of assumptions have been made with regards to the level of resources that will be made available to the Council as detailed in this report. It is important to note that there continues to be considerable amount of uncertainty with regards to future income streams for local authorities over the forthcoming Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in 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.
5. That, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council.
6. That the overall risk associated with the 2022-2023 draft budget and medium term strategy is assessed as Red.

1.0 Purpose

- 1.1 The purpose of this report is to provide Councillors with an update to the Draft Budget and Medium Term Financial Strategy (MTFS) 2022-2023 to 2023-2024; and agree the next steps that will be taken in order to address the financial pressures faced by the Council over the medium term.
- 1.2 This is the second report of the financial year on the Draft Budget and Medium Term Financial Strategy (MTFS) for the period of 2022-2023 to 2023-2024.

2.0 Background

- 2.1 The City of Wolverhampton Council has built up a strong track record over many years of managing its finances well and, despite austerity; consistently setting a balanced budget. Over the last ten years the Council has identified budget reductions in excess of £235 million. Our approach to strategic financial management, aligning budgets to service priorities and improving services, and investing in transformation priorities, continues to put us in a strong financial position. The Wolves at Work 18-24 – Youth Employment report on this same agenda demonstrates the Council's commitment in aligning our budget to priorities and seeks approval to lead on developing and resourcing a comprehensive programme of targeted intervention to support young people currently claiming benefits and aged between 18-24, into sustainable employment, apprenticeships, education and training.
- 2.2 The 2021-2022 Budget and Medium Term Financial Strategy (MTFS) 2021-2022 to 2023-2024 was presented to Full Council for approval on 3 March 2021. Despite the impact of Covid-19, the Council was able to set a balanced budget without the need to make use of general reserves or the need to undertake fundamental service reviews in 2021-2022. However, it was projected that after taking into account the impact of the pandemic, the Council would be faced with finding further estimated budget reductions totalling £25.4 million in 2022-2023, rising to £29.6 million by 2023-2024.
- 2.3 The updated projected budget deficit assumes the achievement of budget reduction and income generation proposals amounting to £4.3 million over the three year period from 2021-2022 to 2023-2024.
- 2.4 The Covid-19 pandemic has significantly distorted the budget and MTFS. Due to this distortion, it is difficult to confirm the exact costs directly associated with the pandemic. It is important to note that the cost of dealing with the pandemic extend beyond the immediate period. It is not yet known how long the pandemic will go on for or what the level of future support will be required.
- 2.5 In addition, at the time of writing this report, there continues to be considerable uncertainty with regards to future funding streams for local authorities over the forthcoming multi-year Spending Review period. On 7 September 2021, Government announced that a three-year spending review will be held on 27 October 2021. Once further information is made available, updates will be provided 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.

- 2.6 On 28 July 2021 Cabinet approved the draft budget strategy 2022-2023. This report provides an update on the progress towards the budget strategy 2022-2023 and 2023-2024.
- 2.7 The Council is on track to set a balanced budget for 2022-2023, however, these proposals are mainly one-off and not sustainable over the medium term. Work has started to address the forecast budget deficit over the medium term as outlined in section 6 of this report. These proposals will continue to be developed and assumptions tested in order to provide a sustainable medium term strategy.

3.0 Relighting Our City

- 3.1 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. 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. These priorities together with the associated key actions and activity form a framework for recovery.
- 3.2 Within the Relighting Our City recovery commitment plan there are five overarching priorities for recovery, supporting the delivery of our Council Plan vision for Wulfrunians to live longer, healthier, and more fulfilling lives:
- 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
- 3.3 On 17 March 2021, Cabinet received an update on the Relighting Our City recovery plan, outlining what the Council, working alongside its partners, has done against the priorities since the inception of the recovery commitment in September 2020. As well as reflecting on what had been achieved so far, the refreshed plan also provides an overview of future planned activity to support our commitment and the local economy to recover from the impact of the pandemic.
- 3.4 A new performance framework was created to monitor performance against these priorities and includes two different type of indicators; city indicators and impact indicators. In July 2021, Cabinet received an update on performance against the city indicators, relevant financial information and key areas of activity. On 17 November 2021, Cabinet will be presented with the second Performance and Budget Monitoring report of the 2021-2022 financial year.

3.5 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

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. In the coming months we will be engaging with city partners and communities to refresh our Council Plan 2019-2024 to ensure it continues to reflect the needs and priorities of local people.

4.2 Our Council Plan 2019-2024 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 3, 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 Updated financial position - 2022-2023 Budget Strategy

- 5.1 On 28 July 2021, Cabinet approved the draft budget strategy for 2022-2023. It was reported that whilst the Council continues to operate with the uncertainty of Covid-19 and the current budget distortion, work has been undertaken to map out a draft budget strategy that will enable the Council to set a balanced budget for 2022-2023.
- 5.2 The assumptions used in the preparation of the Budget and MTFs remain under constant review and update. The following paragraphs provide an overview of the changes to corporate resource assumptions, growth and inflation, budget reduction targets and one-off opportunities. The Council is on track to set a balanced budget for 2022-2023, however, a number of the proposals for 2022-2023 are one-off and not sustainable over the medium term. Work has started to address the medium term gap as outlined in section 6.

Corporate Resources

- 5.3 On 7 September 2021, Government announced proposals to levy additional funding from an increase in national insurance to fund cost pressures within health and social care. It is anticipated that additional funding of around £12 billion per year nationally will be raised through a 1.25% levy, based on national insurance contributions. Of this £5.4 billion will be used to fund social care between 2022-2023 and 2024-2025. As outlined in section 7 of this report, the level and profile of this funding and any additional costs, in particular linked to the cap on care, and how this relates to the funding provided through the adult social care precept are not yet known. Updates will be provided in future budget reports once further information becomes available.
- 5.4 As previously reported to Cabinet, the Covid-19 pandemic has had a significant impact on Wolverhampton. The forecast collection fund deficit increased as a result of a decline in council tax and business rates collected during 2020-2021. The Council Tax base also reduced for 2021-2022 compared to 2020-2021, when taking into account increased numbers claiming Local Council Tax Support, lower collection rates and reprofiling of housing growth assumptions. These assumptions are currently being reviewed and updated for 2022-2023 and future years based on collection data for 2021-2022. These assumptions will continue to be tested and updates provided in future reports.

One-off Opportunities

- 5.5 On 16 June 2021 the outturn position for 2020-2021 was presented to Cabinet. It was noted that as a result of the overall outturn position, there was no call on the Future Years Budget Strategy (£2.3 million) and the Job Evaluation (£1.0 million) reserves. It is proposed that the use of these reserves is built into the 2022-2023 budget. In addition, it is also proposed that the Treasury Management Equalisation Reserve of £1.7 million be released in 2022-2023.
- 5.6 It was reported to Council that in the budget for 2021-2022 there was an estimated net cost of £6.4 million relating to the impact of Covid-19. Efficiencies across the Council enabled the Council to set a balanced budget despite this pressure. The Council has managed the use of Covid-19 grants very carefully which enabled some grant to be carried forward into the current financial year. It is proposed that in the first instance, £5.0 million of Covid-19 Emergency Grant is drawn down to support the underlying budget pressures in 2021-2022, thereby releasing general fund resources which can be utilised to meet the budget deficit in 2022-2023.
- 5.7 The use of capital receipts flexibility to fund revenue transformation has been extended until 2024-2025. Work has been undertaken to look at what extent capital receipts can be utilised in 2022-2023 to support the budget strategy and it is now proposed that £5.0 million is built into the budget for 2022-2023.

- 5.8 The outturn position for 2020-2021 did not require a number of grants to be drawn down to fund one-off expenditure within year. It is therefore proposed that one-off grants are utilised in 2022-2023 totalling £1.0 million.
- 5.9 It was reported to Cabinet in July 2021, that early indications are that there are some efficiencies across some services in 2021-2022. It is proposed that any underspends are transferred to a specific reserve to support the 2022-2023 Budget Strategy and reduce the level of capital receipts to pay for revenue transformation in 2021-2022. It is currently estimated that there could be underspends in the region of £4.0 million mainly across Corporate Services. Where ongoing underspends are identified, they will be reflected in the budget strategy for future years in a similar way to corporate contingency budget reductions, referenced in paragraph 5.10 below. This assumption will be kept under review and updates will be provided in future Performance and Budget Monitoring reports to Councillors, with the next update due to be presented to Cabinet on 17 November 2021.

Changes to Growth and Inflation

- 5.10 The outturn report 2020-2021 reported to Cabinet in June 2021, noted that a number of corporate contingencies have not been required in full. Work has been undertaken in conjunction with relevant service areas to determine the level of risk and contingency required for 2022-2023. It is therefore proposed that these contingency budgets are reduced by £2.2 million.
- 5.11 On the 7 September 2021, Government announced an increase to both employers and employees national insurance of 1.25% which will be ring-fenced to fund cost pressures across health and social care. The cost of a 1.25% increase is in the region of £1.0 million (excluding any pay award). The Government have announced that public sector employers will be compensated for this increase in costs. The budget therefore assumes there is net nil impact for the Council.

Revisions to Budget Reduction Targets

- 5.12 The Council highly value the contribution employees make in the delivering of its priorities. The July 2021 budget report to Cabinet proposed that the Staff Terms and Conditions budget reduction target of £1.2 million be deleted from the MTFs and that work would be undertaken to establish whether this adjustment could be offset by the possible inclusion of a vacancy factor. Work has now been carried out in conjunction with the relevant service areas on the level of vacancies held as a result of natural staff turnover throughout the year, and it is therefore proposed that a vacancy factor of £1.2 million replace the Staff Terms and Conditions proposal. The introduction of a vacancy factor will not mean a change to normal recruitment processes and in the event that the vacancy target is not delivered within year, the Budget Contingency Reserve will be used to offset any shortfall.

- 5.13 In addition, an in-depth review has been undertaken on existing budget reduction and income generation targets to ensure that the targets included in the MTFS remain deliverable over the medium term. It has been determined that £1.8 million of savings will not be delivered in 2022-2023 as originally planned. It is therefore proposed that these be deleted from the MTFS.

Efficiencies

- 5.14 The outturn position for 2020-2021 reported an underspend in the Treasury Management budget. As reported to Cabinet in the draft budget strategy on 28 July 2021, early indications are that there is an underspend in the Treasury Management budget in the current financial year. The level of borrowing required to support the capital programme has been reviewed and the treasury management forecast tested to ascertain the budget requirement for 2022-2023. It is therefore proposed the Treasury Management budget is reduced by £1.5 million.
- 5.15 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 valuation review in 2019-2020 which set the employer pension contribution requirements over the period from 2020-2021 to 2022-2023. Following discussions with the Fund, it was intended that the Council make an annual payment in April of each year for future services contributions in order to reduce the total costs and secure budget reductions. Furthermore, upfront payment of past service deficit contributions secured additional budget reductions for 2022-2023, which have now been reflected in the MTFS.
- 5.16 In addition, over a number of years, in-year efficiencies have been delivered across a number of services, without impacting of the delivery of Council priorities. It is therefore proposed that an in-year efficiency target is built into the budget to capture these potential efficiencies. In the event that this in-year target is not delivered, the Budget Contingency Reserve will be used to offset any shortfall.
- 5.17 The proposals outlined in the paragraphs above will enable the Council to set a balanced budget for 2022-2023. Work will continue over the coming months to review all assumptions outlined above in order to close the remaining forecast budget deficit of £1.1 million for 2022-2023; a further update will be presented to Councillors in December 2021. The overall impact of the revisions to the draft budget 2022-2023, arising from the items detailed in the paragraphs above have been reflected in Table 1 overleaf:

Table 1 – Draft Budget Strategy 2022-2023

	2022-2023 £000
Projected Budget Challenge as at February 2021	25,352
Changes to Corporate Resources	
<ul style="list-style-type: none"> • Review of Collection Fund deficit 	(200)
One-Off Opportunities	
<ul style="list-style-type: none"> • Use of Budget Strategy Reserve 	(2,347)
<ul style="list-style-type: none"> • Use of Job Evaluation Reserve 	(1,000)
<ul style="list-style-type: none"> • Use of Treasury Management Reserve 	(1,651)
<ul style="list-style-type: none"> • Use of Covid-19 emergency grant in 2021-2022 (creation of a reserve from efficiencies) 	(5,000)
<ul style="list-style-type: none"> • Capital Receipts Flexibility 	(5,000)
<ul style="list-style-type: none"> • Use of One-off grants 	(1,000)
<ul style="list-style-type: none"> • Anticipated underspends in 2021-2022 to carry forward 	(4,000)
<ul style="list-style-type: none"> • Underlying underspends – in year efficiencies 	(1,500)
Changes to Growth and Inflation	
<ul style="list-style-type: none"> • Review of Corporate Contingencies and inflation assumptions 	(2,175)
Treasury Management	
<ul style="list-style-type: none"> • Review of Treasury Management budget 	(1,500)
Revisions to Budget Reduction Targets	
<ul style="list-style-type: none"> • Deletion of Staff Terms and Conditions 	1,200
<ul style="list-style-type: none"> • Vacancy Factor to replace Staff Terms and Conditions 	(1,200)
<ul style="list-style-type: none"> • Review of existing savings targets 	1,800
<ul style="list-style-type: none"> • Efficiencies from upfront pension payment 	(650)
Total	24,223
Projected deficit after impact of revisions	1,129

5.18 It is important to note that due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council.

6.0 Budget Strategy 2023-2024

- 6.1 The proposals outlined above provide a short-term plan for 2022-2023, but do not address the underlying budget deficit over the medium term. It was reported to Cabinet in July 2021, that the estimated budget deficit for 2023-2024 onwards would be in the region of £25 million. Work has also been undertaken to identify measures which will provide a sustainable medium term strategy and updates are provided in the following paragraphs.
- 6.2 The MTFs currently assumes that the Top Up Grant is cash flat. We are currently reviewing a number of different scenarios and the likely impact of any increase for inflation or growth.
- 6.3 As outlined in paragraph 5.3 and section 7, Government have announced additional funding for Adult Social Care which is not currently built into the MTFs. Whilst the level of funding has not yet been confirmed, work will be undertaken to estimate what this is likely to be in 2023-2024. At the point of writing, it is not known to what extent any additional funding will cover the additional costs arising as a result of the proposals. In addition, Council Tax and Business Rates assumptions will be reviewed in line with updated collection rates as the city begins to recover from the pandemic.
- 6.4 As detailed in paragraph 5.14 there was an underspend on the Treasury Management budget in 2020-2021 and current forecasts indicate an underspend in 2021-2022. The level of borrowing required to support the capital programme over the medium term will be reviewed and treasury management forecasts tested to ascertain if the budget can be reduced further in 2023-2024.
- 6.5 As outlined in paragraph 5.16, over a number of years in-year efficiencies have been delivered without impacting on the delivery of service priorities. It is therefore proposed that an in-year efficiency target be considered for 2023-2024 in order to capture these efficiencies.
- 6.6 A further review will be undertaken across corporate budgets to identify any further potential efficiencies, including the budget held for future credit losses (bad debt provision), with a review of reducing this budget in future years. Targeted work is underway to improve access and to analyse data on our outstanding debts in order to build on our One Council approach to engagement with customers in relation to debt.
- 6.7 The proposals outlined in this report, in relation to Treasury Management and efficiencies could reduce the budget deficit for 2023-2024 to below £20 million. This will be reduced further by any additional government grant funding, including inflation increases and adult social care funding. Given the current level of forecast deficit, it is likely that service led savings will need to be considered in order to set a balanced budget for 2023-2024.
- 6.8 It is important to note that there continues to be a level of uncertainty associated with emerging behavioural and operational changes arising as a result of the pandemic. This may continue to have significant ongoing financial implications for services provided by

the Council including, but not limited to, social care, public health and wellbeing and income generating services

- 6.9 Work will continue over the coming months to review all assumptions in the Medium Term Financial Strategy and due diligence will be undertaken to test the assumptions and proposals outlined above for 2023-2024 onwards. It is anticipated that a further update will be presented to Councillors in December.
- 6.10 The Final Budget Report which will be presented to Cabinet in February 2022 will include an extension of the MTFS to incorporate assumptions to 2024-2025, in line with the three year spending review.

7.0 Risk and Uncertainty

Social Care

- 7.1 On 7 September 2021, Government published 'Building Back Better: Our Plan for Health and Social Care'. This represents a plan to tackle twin challenges – the backlog in NHS resulting from the Covid-19 pandemic and the long standing systemic and funding challenges for delivering adult social care.
- 7.2 The plan represents the first stage of information being provided around the reforms, with initial focus upon the NHS waiting times. It then outlines, the proposals on reforming adult social care, with focus upon what both those who receive services will need to pay and the support they may receive, and briefly the additional funding that will be provided to local government to support the reformed system.
- 7.3 The Government announced that they will ensure local authorities have access to sustainable funding for core budgets at the Spending Review, and that they expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies.
- 7.4 The plans propose to introduce a new £86,000 cap on the amount anyone will need to spend on their personal care over their lifetime, which will come into effect from October 2023. In addition to this it is proposed that a £20,000 capital threshold will replace the current £14,250. For people with capital below £20,000, their contribution will be based on a financial assessment of their income only, for people with capital of between £20,000 and £100,000 20% of their capital will be added to their income to determine their contribution. People will pay the full cost for their care and support when they have capital above £100,000. Once the cap is reached, the local authority will pay for all eligible personal care costs. Work is currently underway to forecast the potential cost implications of the proposed changes.
- 7.5 The Government have indicated that it will levy in additional funding of around £12 billion per year from an increase of 1.25% on both employers and employees national insurance contributions. Of this, £5.4 billion will be used to fund social care between 2022-2023 and 2024-2025. The Spending Review 2021, which will set out the funding

totals for the next three years (2022-2023 to 2024-2025), will be delivered on 27 October 2021. The Government then plans to consult on proposals for distributing the additional funding for adult social care across local government. In addition, the Government will also publish a white paper on system reform for adult social care.

- 7.6 This increase in employer national insurance will also apply for providers of service to the council; including but not limited to social care providers. There is a significant amount of uncertainty on the financial implications of the impact of this increase along with the impact of the high inflationary costs on the cost of services and goods procured by the council.

Other Budget Risks

- 7.7 At the time of writing this report national negotiations are ongoing in respect of the pay award for 2021-2022. The 2021-2022 budget includes provision within employee budgets for a 1% pay award. However, it is anticipated that there is some provision within corporate budgets to accommodate an increase of up to 2% without having to find offsetting budget reductions in year. Any increase above 2% would require in year efficiencies to be made and increase the projected deficit for 2022-2023 and future years. The MTFs currently assumes 2% pay award for 2022-2023.
- 7.8 At the time of writing this report, there continues to be considerable uncertainties with regards to future funding streams for local authorities over the forthcoming financial year and medium term and it is particularly challenging to establish a medium term financial strategy at this point in time. On 7 September 2021, Government announced that a three-year spending review will be held on 27 October 2021. As further information is made available, updates will be provided to Councillors in future budget reports. 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.
- 7.9 The cost of dealing with the pandemic extends beyond the immediate period. It is not yet known how long the pandemic will go on for or what level of future support required will be. It is anticipated that pressures will continue to emerge in many areas particularly in social care, public health and wellbeing and income generating services. The end of furlough, the impact of increases in National Insurance costs and inflation could also impact on the Council's income collection from council tax and business rates for years to come.
- 7.10 The overall level of risk associated with the Draft Budget and Medium-Term Financial Strategy (MTFS) 2022-2023 to 2023-2024 is assessed as Red. The following table provides a summary of the risks associated with the MTFs, using the corporate risk management methodology.

Table 2 – General Fund Budget Risk Register

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.	

Risk	Description	Level of Risk
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

8.0 Next Steps

- 8.1 A summary of the 2022-2023 budget setting process timetable is detailed below in Table 3.

Table 3 – Budget Timetable

Milestone	Deadline
Report to Cabinet following the Spending Review	December 2021
Report to Scrutiny Board	January 2022
Report to Cabinet following Local Government Finance Settlement	January 2022
Final Budget Report 2022-2023 to Cabinet	23 February 2022
Full Council Approval of Final Budget 2022-2023	2 March 2022

9.0 Continuous Conversations with Communities

- 9.1 It is vital that city partners, residents, businesses and voluntary community sector are actively engaged throughout the city's recovery and that there are opportunities to co-produce innovative solutions to the challenges the pandemic has brought. Relighting Our City will continue to be a 'living' document and be taken forward as a continuous conversation with our communities through our Commonplace platform.
- 9.2 Throughout the year we will continue to actively engage with our key stakeholders to understand the needs of the city and the things that matter most, seeking opportunities to co-produce innovative solutions to challenges and understand how we should prioritise the

use of our finite resources In the coming months we will be engaging with city partners and communities to refresh our Council Plan 2019-2024 to ensure it continues to reflect the needs and priorities of local people.

10.0 Evaluation of alternative options

10.1 In determining the financial strategy, consideration has been made to the deliverability of budget reduction and income generation proposals, and budget pressures. If we were not to implement the strategy outlined in this report, alternative options would need to be identified in order for the Council to set a balanced budget for 2022-2023.

11.0 Reasons for decisions

11.1 It is recommended that the updated draft budget strategy linked to the Five Year Financial Strategy, including changes to corporate resource assumptions and growth and inflation, for inclusion in the Draft Budget and Medium Term Financial Strategy 2022-2023 to 2023-2024 is approved by Cabinet. Cabinet will be provided with an update on progress in the Draft Budget and Medium Term Financial Strategy 2022-2023 to 2024-2025 report which will be presented to Cabinet in February 2022. In approving this strategy, the Council will be working towards identifying options to be able to set a balanced budget for 2022-2023.

12.0 Financial implications

12.1 The financial implications are detailed in the body of this report.
[MH/12102021/S]

13.0 Legal implications

- 13.1 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.
- 13.2 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.
- 13.3 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.

- 13.4 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).
- 13.5 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.
- 13.6 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.
- 13.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2022-2023.
[TC11102021/C]

14.0 Equalities implications

- 14.1 The method by which the MTFs for 2022-2023 is developed is governed by the Council Plan priorities described in sections 3 and 4, which itself was guided by consultation and equality analysis. Development of budget reduction proposals for Cabinet's consideration will include an initial equalities screening for each proposal and, where necessary, a full equalities analysis which will provide for an initial understanding of the equality impact of the draft proposals. All of this will enable Councillors to pay, "due regard" to the equalities impact of their budget decisions at that point in the budget development process. The resulting and final report to Cabinet and Council will contain a supporting equality analysis that will offer information across the whole range of proposals and in doing so enable Councillors to discharge their duty under Section 149 of the Equality Act 2010.

15.0 All other implications

- 15.1 The Covid-19 implications are detailed in the body of the report
- 15.2 Any human resource implications will be subject to consultation and managed in accordance with the Council's HR policies and processes

16.0 Schedule of background papers

- 16.1 [2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2023-2024 –](#)
report to Cabinet on 17 February 2021 and Full Council on 3 March 2021.
- 16.2 [Performance, Budget Monitoring and Budget Update 2021-2022](#) – report to Cabinet on
28 July 2021.