

<b>Report title</b>	Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026	
<b>Decision designation</b>	AMBER	
<b>Cabinet member with lead responsibility</b>	Councillor Obaida Ahmed Resources and Digital City	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All Wards	
<b>Accountable Director</b>	Tim Johnson, Chief Executive	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee</b>	Claire Nye	Director of Finance
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<b>Report to be/has been considered by</b>	Strategic Executive Board	14 June 2022

**Recommendation for decision:**

The Cabinet is recommended to approve:

1. The draft budget strategy and medium term financial strategy which underpin Our City, Our Plan, including changes to corporate resource assumptions, growth and inflation.

**Recommendations for noting:**

The Cabinet is asked to note:

1. That significant progress has been made towards setting a balanced budget for 2023-2024 however there remains a high level of risk and uncertainty. Further options will continue to be explored to address the updated projected budget deficit of just under £1.0 million.
2. That a number of assumptions have been made with regards to the level of resources that will be available to the Council as detailed in section 8 of this report. It is important to note there continues to be a considerable amount of uncertainty with regards to future income streams for local authorities. Any reduction in Government' allocation of funding

to the Council would have a significant detrimental impact and further increase the budget deficit over the medium term.

3. 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.
4. That the updated projected budget deficit assumes the achievement of recurrent budget reduction and income generation proposals totalling £12.2 million over the period of 2022-2023 to 2025-2026.
5. That a further update on the budget strategy will be presented to Cabinet in October 2022 and that there will be a period of formal budget consultation and scrutiny. This will also align to the annual refresh of Our City, Our Plan, setting out our key city priorities.
6. That it is forecast that by 2025-2026 the budget deficit will rise to £25.7 million and that work will continue to be undertaken to bring forward proposals to deliver a sustainable medium term financial strategy.
7. That the overall level of risk associated with the Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026 is assessed as Red.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Councillors with an update on the Draft Budget and Medium Term Financial Strategy (MTFS) 2023-2024 to 2025-2026, along with an overview of the in-year budget monitoring position for 2022-2023.

## **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. 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.
  - 2.2 The Budget and MTFS 2022-2023 to 2025-2026 was presented to Full Council for approval on 2 March 2022. Despite the continuing impact of the Covid-19 pandemic, the Council was able to set a balanced budget for 2022-2023 without the need to use of general reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 in order to address the budget deficit.
  - 2.3 It is important to note that the updated projected budget deficit assumes the achievement of recurrent budget reduction and income generation proposals totalling £12.2 million over the period of 2022-2023 to 2025-2026.
  - 2.4 Reserves play a vital role in the financial sustainability of the Council. The Council's General Fund Balance stands at £13.7 million. This level of reserve is approximately 5% of the 2022-2023 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. Whilst the Council does not have a high level of reserves, the favourable outturn position for 2021-2022 (reported to Cabinet on 15 June 2022), has enabled the Council to protect the current level of reserves to some extent. 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.
  - 2.5 It should be noted due to external factors, specially surrounding Covid-19, and the high cost of living, including increasing inflation, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
  - 2.6 This report provides an update on the progress towards the budget strategy for 2023-2024 and future years, whilst also dealing with the emerging pressures that are faced by the Council.
- ## **3.0 Our City, Our Plan**
- 3.1 The Council's strategic approach to address the budget deficit is to align resources to Our City, Our Plan which was approved by Full Council on 2 March 2022.

- 3.2 The plan continues to identify an overarching ambition that ‘Wulfrunians will live longer healthier lives’ delivered through six overarching priorities:
- Strong families where children grow up well and achieve their full potential
  - Fulfilled lives for all with quality care for those that need it
  - Healthy, inclusive communities
  - Good homes in well-connected neighbourhoods
  - More local people into good jobs and training
  - Thriving economy in all parts of the city
- 3.3 These priorities together with the associated key outcomes, objectives and activity form a framework to improve outcomes for local people and deliver our levelling up ambitions.
- 3.4 Supporting the six overarching priorities are three cross cutting principles
- Climate Conscious
  - Driven by Digital
  - Fair and Equal
- 4.0 2022-2023 Budget Update**
- 4.1 On 2 March 2022, the Council approved the net budget requirement for 2022-2023 of £267.2 million for General Fund services.
- 4.2 Overall, the General Fund projected outturn for 2022-2023 is currently forecast to be within budget. However, early indications are that there are some cost pressures, particularly linked to the increase in inflation across some services.
- 4.3 In addition, inflationary pressures are also being seen across some capital projects, with increases in the cost of materials. There is also a risk of supply chain delays, which will impact on completion dates, and could result in further cost pressures. These risks, along with increasing interest rates impact on the revenue Treasury Management Budget.
- 4.4 It is currently forecast that these forecast cost pressures can be accommodated from efficiencies from across the council, however this will be kept under review and updates provided to Councillors. The Performance and Budget Monitoring Quarter 1 report will be submitted to Cabinet in September which will provide more detail.
- 4.5 There continues to be significant uncertainty about the financial impact of inflation and interest rate increases over the medium term.
- 5.0 Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026**
- 5.1 The Budget and MTFs 2022-2023 to 2025-2026 was presented to Full Council on 2 March 2022. The Council was able to set a balanced budget for 2022-2023 without the use of General reserves. However, it was projected that the Council would be faced with

finding further estimated budget reductions totalling £12.6 million in 2023-2024, rising to £25.8 million over the medium term to 2025-2026 in order to address the budget deficit.

- 5.2 Whilst we continue to operate within an uncertain environment, work has been undertaken to map out a draft strategy that will enable the Council to set a balanced budget for 2023-2024. This report seeks approval to a draft budget strategy which is made up of a series of proposals outlined in the following paragraphs.

### **One-Off funding and use of reserves**

- 5.3 The 2022-2023 budget report approved by Full Council on 23 February 2022, approved the creation of a specific reserve totalling £1.8 million to mitigate against pressures in Adult Services and any potential variation in Collection Fund assumptions, particularly with regards to the allocation of the Covid-19 Additional Relief Fund. It was recommended that should these risks not materialise then there would be an opportunity to call on this reserve to support the 2023-2024 budget strategy. The risk with regards to the Collection Fund has not materialised, so it is therefore proposed that £800,000 is released to support the 2023-2024 budget strategy. As detailed in section 7, there is still considerable uncertainty around Adult Social Care, therefore we will look to transfer the balance of £1.0 million into the reserve for Adult Social Care for Growth and Demand Pressures.
- 5.4 The favourable out-turn position for 2021-2022, enabled the Council to transfer underspends in the region of £2 million into the Future Years Budget Strategy Reserve to support the budget challenge over the medium term.
- 5.5 In addition, as part of the year end process, an in-depth review on grants has been undertaken to identify if any grants can be released to support the budget strategy. This review has identified grants totalling in the region of £1.6 million that can be released in 2023-2024 to support the budget strategy.

### **Corporate Resources**

- 5.6 In March 2022, it was reported that a number of assumptions had been made regards to the level of resources that will be available to the Council. However, it was also noted that there continues to be considerable uncertainty with regards to future funding streams for local authorities.
- 5.7 Funding forecasts have been reviewed and a number of scenarios have been modelled reflecting different assumptions about inflationary uplifts on our top up grant, and the continuation of one-off grants such as New Homes Bonus, Lower Tier Fund and the Services Grant.
- 5.8 For the purposes of this budget strategy, it is considered prudent to use the mid case scenario as a working assumption, this could result in additional resources of £3.9 million in 2023-2024, reducing over the medium term to an additional £1 million being made available to the Council. However, it should be noted that the worst case scenario has a

forecast reduction in funding of £1 million in 2023-2024, when compared to the current MTFS.

- 5.9 The table below summaries the assumptions and forecast change to corporate resources.

**Table 1: Forecast changes to Corporate Resources**

<b>Corporate Resources</b>	<b>Current MTFS</b>	<b>Worst Case</b>	<b>Mid Case</b>
Top Up Grant	2%	2%	4% for 2023-2024, 2% thereafter
New Homes bonus	Not assumed beyond 2022-2023	Not assumed beyond 2022-2023	Continues but at 50% for 2023-2024 only
Services Grant	£1 million (NI levy)	No funding	Continues at 50% in 2023-2024, then phases out
Lower Tier Grant	Not assumed beyond 2022-2023	Not assumed beyond 2022-2023	Continues but at a reduced level

- 5.10 At the Local Government Association (LGA) conference in June, it was announced that local authorities will be given a two- year financial settlement, for 2023-2024 and 2024-2025, and a consultation would be announced shortly. As the point that further information is known it will be incorporated into future reports to Councillors.
- 5.11 The Collection Fund outturn was reported to Cabinet on 15 June 2022. The Covid-19 pandemic has had a significant impact on the Collection Fund, and whilst it was reported that the Council had seen an improvement on the collection rate and a reduction in the number of Local Council Tax Support claimants in 2021-2022 when compared to 2020-2021, these had still not returned back to pre-pandemic levels. The Collection Fund outturned more favourably than budgeted for in 2021-2022, reducing the deficit carried forward into future years. This has resulted in a one-off benefit of £4.0 million in 2023-2024.

### **Changes to Growth and Inflation**

- 5.12 At the time of writing this report national negotiations are still ongoing in respect of the pay award for 2022-2023. In addition, it is projected that the National Living Wage (NLW) could increase from the hourly rate of £9.50 in 2022-2023 to £11.00 by 2024-2025. The approved 2022-2023 budget and MTFS includes an annual provision within the employee budgets for a 2% pay award. Any increase above the 2% for 2022-2023 would need to

be funded from either in-year efficiencies and / or reserves. Current forecasts suggest that the current growth of 2% is insufficient to accommodate the increase to NLW for 2023-2024 onwards. Therefore, forecast additional growth of £9.0 million has been built in over the medium term. However, it is important to note that growth may still not be sufficient and will depend on pay award agreed for 2022-2023 and future years, this will be kept under review and updates provided in future reports.

## 6.0 Five Year Financial Strategy

6.1 The Financial Strategy, approved by Council in March 2019, consists of five 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.

6.2 With these core principles in mind, the Council's Leadership Team has been carrying out extensive work in order to identify proposals to support the medium-term financial strategy. Work is ongoing across the following themes:

- Our assets
- Procurement and contracts – particularly focused on embedding the Wolverhampton Pound approach
- Income collection, debt management and recovery
- Business processes
- Digital and data
- Delivery models
- Income generation including fees and charges
- Human resources and occupational development

6.3 Current high level projections indicate that this work could lead to budget reduction, income generation and efficiency proposals totalling £5.2 million over the medium term. Work will continue over the coming months to develop these proposals and further detail will be provided to Cabinet in October.

6.4 Over a number of years, in-year efficiencies have been delivered across a number of services, without impacting of the delivery of Council priorities. The Budget report approved by Council in March 2022, approved the inclusion of a £4.5 million efficiency target over the medium term to 2025-2026, of which £2.5 million is in 2023-2024. Further work will continue over the coming months to undertaken to identify if this target can be accelerated into 2023-2024 or increased.

6.5 In addition, an in-depth review is being undertaken on existing budget reduction and income generation targets to ensure that the targets included in the MTFs remain deliverable over the medium term. An update will be provided to Cabinet in October.

## 7.0 Updated forecast financial position - Budget Strategy 2023-2024 and MTFs

7.1 The proposals in this report go a long way towards a balanced budget for 2023-2024 but do not address the underlying budget deficit over the medium term. It is estimated that the deficit over the medium term up to 2025-2026 could be in the region of £25.7 million. Therefore, alongside due diligence, work will also continue to identify measures which will provide a sustainable medium term strategy with proposals being brought to Cabinet as soon as possible.

7.2 The overall impact of the revisions to the draft budget 2023-2024 and MTFs, arising from the items detailed in the paragraphs above have been reflected in the table below:

**Table 2 – Draft Budget Strategy 2023-2024 and MTFs**

	2023-2024	2024-2025	2025-2026
	£000	£000	£000
<b>Projected Budget Challenge – February 2022</b>	<b>12,630</b>	<b>17,316</b>	<b>25,826</b>
Changes to grant assumptions – mid case	(3,914)	1,792	1,112
Use of reserves	(2,800)	2,800	-
Changes to Council Tax & Business Rates	(4,000)	4,000	-
One off use of grants	(1,600)	1,600	-
Pay award pressures	4,500	3,900	600
Matrix Work	(950)	(2,100)	(2,100)
Further in year efficiencies	(3,000)	-	-
<b>Annual impact of proposals</b>	<b>(11,764)</b>	<b>11,992</b>	<b>(388)</b>
<b>Cumulative impact of proposals</b>	<b>(11,764)</b>	<b>228</b>	<b>(160)</b>
<b>Deficit after cumulative impact of proposals</b>	<b>866</b>	<b>17,544</b>	<b>25,666</b>
<b>Annual change in deficit</b>	<b>866</b>	<b>16,678</b>	<b>8,122</b>



7.3 The Director of Finance believes that the proposals outlined in the paragraphs above will go a long way to enabling the Council to set a balanced budget for 2023-2024. It is proposed that due diligence is undertaken to test the assumptions outlined in this report and to assess what further actions may be required to set a balanced budget. A further update on the budget strategy will be presented to Cabinet in October.

## **8.0 Risk and Uncertainties**

- 8.1 As detailed in section 5, there continues to be significant uncertainty around affordability of a pay award and impact of the National Living Wage for 2022-2023 and future years. Additional forecast growth has been built into the budget and MTFs, however this will be kept under review and updates will be provided to Councillors as and when more information becomes available.
- 8.2 At the time of writing this report, there continues to be considerable uncertainties with regards to future funding streams for local authorities. At the LGA conference in June 2022, it was announced that a fair funding exercise will be undertaken with consultation commencing shortly, and local authorities would receive a two-year settlement. A number of assumptions have been made to potential future funding as detailed in section 5, it is important to note that 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.
- 8.3 Inflation in the UK is at the highest it has been for four decades, which means the country is facing an increase in the cost of living, with food, petrol and energy bills all increasing. It is not yet known what the full extent this will have on both the direct energy and fuel costs incurred by the Council and the impact this will have on our contracts, as well as our residents and businesses. The Council will continue to monitor the potential financial implications over the coming months, with updates provided to Cabinet.
- 8.4 UK interest rates have also risen over recent months. Changes to interest rates impact on the Council's treasury management activities, on both interest paid on future borrowing and interest received from investing surplus cash balances. The Treasury Management – Annual Report 2021-2022 and Activity Monitoring Quarter One 2022-2023 report to Cabinet on 6 July reported that due to the economic climate and the increase in interest rates the forecast outturn position for the treasury management activities was difficult to project at this early stage. The position will continue to be monitored and updates provided in future reports.
- 8.5 There is also considerable uncertainty around the cost of adult social care over the medium term due to the increase in demand for services, impact of a fee uplift, impact of the pandemic, impact of the increasing cost of living and the delivery of the Government's 'Build Back Better: Our Plan for Health and Social Care' policy. Services are re-opening following the pandemic and demand in some areas is back at pre-pandemic levels – although the type of service required may be different. In addition, the introduction of the charging reform will increase the number of service users receiving some state support

for their care costs. Funding will be available to support these additional costs, however, there is still significant uncertainty over the financial impact of these changes and the level of funding available. As part of the implementation of charging reform the Council is required to conduct a fair cost of care exercise to review levels of payments to providers, and how the Council will move towards this over the medium term, where it is not paid already. This will be kept under review and updates provided in future reports.

- 8.6 Due to the uncertainties outlined, the overall risk associated with the budget for 2023-2024 and future years is assessed as Red. However, it is anticipated that the draft budget strategy proposed in this report will enable the Council to progress work to balance the budget for 2023-2024. The main risks are summarised in Appendix 1.

## **9.0 Evaluation of alternative options**

- 9.1 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 2023-2024.

## **10.0 Reasons for decisions**

- 10.1 In order to ensure a balanced budget for 2023-2024 it is important that work is progressed as soon as possible. The approval of the draft strategy will enable the Council to undertake due diligence, consultation and scrutiny in a timely manner to fully inform the budget decision process in accordance with statutory deadlines.

## **11.0 Financial implications**

- 11.1 The financial implications are discussed in the body of the report.  
[AS/19072022/Q]

## **12.0 Legal implications**

- 12.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. It is a legal requirement under s25 of the Local Government Act 2003 to set a balanced budget and monitor the financial position throughout the year.  
[SZ/19072022/P]

## **13.0 Equalities implications**

- 13.1 The method by which the MTF5 is developed is governed by the Our City, Our Plan priorities, which itself was guided by consultation and equality analysis. Development of budget reduction savings for Cabinet's consideration in October 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 on 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 will enable Councillors to discharge their duty under Section 149 of the Equality Act 2010.

13.2 Fairness and equality is a key cross cutting theme within Our City, Our Plan.

#### **14.0 All other implications**

14.1 The Covid-19 implications are detailed in the body of the report.

#### **15.0 Schedule of background papers**

15.1 [2022-2023 Budget and Medium Term Financial Strategy 2022-2023 to 2025-2026](#), report to Cabinet on 23 February 2022 and Full Council on 2 March 2022

15.2 [Performance and Budget Outturn 2021-2022](#), report to Cabinet on 15 June 2022.

15.3 [Reserves, Provision and Balances 2021-2022](#), report to Cabinet on 15 June 2022.

#### **16.0 Appendices**

16.1 Appendix 1 – Risk Register