

## Key Assumptions for Budget Growth and Budget Reduction, Income Generation and Efficiency Targets

### 1.0 Introduction

- 1.1 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy (MTFS) 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.

#### Pay Related Pressures

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

**Table 1 – Pay Related Pressures**

|  | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|--|-------------------|-------------------|-------------------|
| Pay Award, Employers Pension, National Insurance and Annual Increments | 9,892             | 7,045             | 5,585             |

#### Pay Award

- 1.3 It was reported to Cabinet in November 2022, in the Performance and Budget Monitoring 2022-2023, that the 2022-2023 pay award offer to the unions representing the main local government NJC workforce has been accepted. The 2022-2023 budget includes a provision of 2% amounting to £2.8 million, whereby the forecast cost of the approved 2022-2023 pay-award is expected to be in the region of £9.0 million, a pressure of £6.2 million. Work has been ongoing to identify in-year efficiencies to mitigate against these costs on both a recurrent and one-off basis.
- 1.4 At the time of writing this report, the national negotiations for a 2023-2024 pay award are still ongoing. The draft budget and MTFS reported to Cabinet in October built in a provision of a 4% pay award, however, due to rising inflation it is has been considered prudent to increase this assumption to 5%. In the event that the pay award is above 5% and in-year efficiencies cannot be identified in 2023-2024, the budget contingency / budget strategy reserves will be called upon to fund the shortfall and the recurrent impact will be built into the MTFS and reported back to Councillors in future reports. Any increase above the 5% currently built into the MTFS could increase the current projected deficit. For every 1% increase in pay award costs on average around £1.6 million.

- 1.5 The MTFs currently assumes a pay award of 2% for 2024-2025 and 2025-2026

### **Employers National Insurance Contributions**

- 1.6 As reported to Cabinet in February 2022, on 7 September 2021, Government announced that they would increase 1.25% on both employers and employees national insurance contributions. This decision was subsequently reversed in November 2022. Local Authorities were compensated for the increase to the employers national insurance through the Services Grant. As detailed Appendix 2, the Services Grant has been reduced for 2023-2024 to reflect this reduction along with diverting funding to fund the Supporting Families Programme. There is therefore minimal impact on the net budget as a result of this decrease as the budget and MTFs assumed this increase would be grant funded.

### **Employer's Pension Payments**

- 1.7 The Council in the context of its role in as a participating employer within the West Midlands Pension Fund (the Fund), was subject to a triennial actuarial review which sets the employer pension contribution requirements over the period of 2023-2024 to 2025-2026. It was reported in October 2022 that the MTFs reflected the forecasts based on the previous valuation in 2019. The Council has received the provisional outcome of the triennial actuarial review (the final outcome will be known in April), which has resulted in a decrease in the employers pension contributions to the Fund. This decrease has been factored into the forecast adjustments for pay related growth.
- 1.8 In accordance with delegated authority, the Cabinet Member for Resources and Digital City in consultation with the Director of Finance will continue to consider if there are further opportunities to accelerate contribution payments to secure additional budget reductions.

### **Budget Pressures**

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

**Table 2 – Budget Pressures**

|              | <b>2023-2024</b> | <b>2024-2025</b> | <b>2025-2026</b> |
|--------------|------------------|------------------|------------------|
|              | <b>£000</b>      | <b>£000</b>      | <b>£000</b>      |
| Inflation    | 26,492           | 11,964           | 1,309            |
| Demand       | 1,756            | 500              | 500              |
| Development  | 844              | (315)            | (215)            |
| <b>Total</b> | <b>29,092</b>    | <b>12,149</b>    | <b>1,594</b>     |

- 1.10 Budget pressures include, but not limited to: increasing utilities costs, the impact of changes to demographic growth, increases in relation to external contracts and investment in Council priorities.

- 1.11 The main report discusses a number of key budget pressures; including those in Adult Services, impact of rising inflation on our energy costs and street lighting, pressures associated with temporary accommodation, and transportation, including vehicle hire.
- 1.12 It is important to note that these cost pressures are subject to change. The current cost of living crisis has significantly distorted the budget and MTFs and it is not known how long these cost pressures will go on for, in particular the implications of rising inflation. It is forecast that for 2023-2024 that the Council will see significant increases due to inflation, for instance we are currently forecasting an increase in our energy costs of around £5.7 million (including street lighting).
- 1.13 In addition, in an Urgent Decision on 10 February 2023, approval was given to transfer the Energy from Waste Plant (EfW) staff to the Council and appoint North Midlands Operations Limited to manage the operations of the plant on a short-term temporary basis. The longer-term operation of the plant is subject to a separate report to Cabinet on this same agenda. As reported to Cabinet in October 2022, there may be some additional costs within our energy for waste plant, and therefore in order to be prudent, growth of £1.8 million has been built into the corporate contingency budget for growth, this would have been necessary regardless of which operating model was used for the EfW. This growth will be released subject to a business case and will be adjusted accordingly such to factors such as income from energy.
- 1.14 The Budget and MTFs reported to Full Council in March 2022, approved growth and inflation totalling £15.8 million. Additional inflationary pressures have been identified in 2023-2024 and over the medium term due to rising inflation and increasing demand on our services, resulting in further growth of £27.1 million having to be built into the Budget and MTFs over the medium term.
- 1.15 A full list of all budget growth and emerging budget pressures that have been reflected in the budget and MTFs, and in order to be prudent, is provided in the table below:

**Table 3 – Budget Pressures**

| Directorate                  | Changes to growth for inflation                             | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|------------------------------|---|-------------------|-------------------|-------------------|
| Adult Services               | Adult Social Care - Growth for demand and fee uplift*       | 13,984            | 11,699            | 89                |
| City Assets                  | Inflation for Energy costs - Gas and Electricity            | 3,655             | 768               | 768               |
| City Housing and Environment | Inflation for Street Lighting electricity                   | 2,000             | -                 | -                 |
| Corporate Accounts*          | Corporate Contingency for Inflation and growth              | 2,974             | -                 | -                 |
| Corporate Accounts*          | Increased costs of temporary accommodation and reduction in | 2,000             | -                 | -                 |

| Directorate                  | Changes to growth for inflation                              | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|------------------------------|--|-------------------|-------------------|-------------------|
|                              | housing subsidy grant (to be held corporately)*              |                   |                   |                   |
| Public Health and Wellbeing  | Leisure PFI - including increases in energy costs            | 540               | (360)             | 90                |
| Finance                      | External Audit Fees  | 340               | -                 | -                 |
| Corporate Accounts*          | WMCA- increase in levy                                       | 211               | 215               | 220               |
| Strategy                     | ICT- increase in licencing fees                              | 476               | -                 | -                 |
| Finance                      | Finance - inflationary pressures enhanced pension costs      | 162               | -                 | -                 |
| City Housing and Environment | Coroner services -pressures                                  | 84                | -                 | -                 |
| Governance                   | Governance - growth for elections                            | 85                | -                 | -                 |
| Corporate Accounts*          | Changes to prior year assumptions on bad debt provision      | 500               | (500)             | -                 |
| City Housing and Environment | Annual inflation for Waste Disposal Contract                 | 142               | 142               | 142               |
| Corporate Accounts*          | Adjustment to corporate contingency budget held in 2022-2023 | (661)             | -                 | -                 |
| <b>Total</b>                 |  | <b>26,492</b>     | <b>11,964</b>     | <b>1,309</b>      |

\*growth relates to both inflationary pressures and increases in demand for these areas.

| Directorate                  | Changes to growth for demand   | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|------------------------------|--|-------------------|-------------------|-------------------|
| City Housing and Environment | Transport - increased costs of passenger transport                         | 1,300             | 500               | 500               |
| Governance                   | Governance - loss of property service income                               | 30                | -                 | -                 |
| Governance                   | Growth within Governance - Schools administration appeals and system costs | 91                | -                 | -                 |
| Education                    | Education - loss of income   | 40                | -                 | -                 |
| City Housing and Environment | Fleet Services - vehicle hire  | 580               | -                 | -                 |
| City Housing and Environment | Markets- reduction in income   | 275               | -                 | -                 |
| City Housing and Environment | Car parking - reduction in income  | 330               | -                 | -                 |

| Directorate         | Changes to growth for demand                                | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|---------------------|---|-------------------|-------------------|-------------------|
| Education           | Adult Education - shortfall on income from fees and charges | 60                | -                 | -                 |
| Corporate Accounts* | Changes to growth held for covid                            | (950)             | -                 | -                 |
| <b>Total</b>        |   | <b>1,756</b>      | <b>500</b>        | <b>500</b>        |

| Directorate                           | Changes to growth for development  | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|---------------------------------------|--|-------------------|-------------------|-------------------|
| Finance                               | Council Tax - Discretionary pot to support residents   | 500               | (500)             | -                 |
| Corporate Accounts*                   | Growth to support Transformational work within the Organisational theme (to be held corporately and subject to business cases) | 1,139             | -                 | -                 |
| Communications and Visitor Experience | Growth for City Events   | 208               | -                 | -                 |
| Corporate Accounts*                   | Wolverhampton local Plan   | 175               | 40                | (215)             |
| City Assets                           | City Assets - changes to rental income   | (75)              | (105)             | -                 |
| Corporate Accounts*                   | City Assets -revisions to growth held for facilities management / corporate landlord   | (250)             | (750)             | -                 |
| Corporate Accounts*                   | Adjustments to growth held to support Council priorities in 2022-2023  | (853)             | 1,000             | -                 |
| <b>Total</b>                          |  | <b>844</b>        | <b>(315)</b>      | <b>(215)</b>      |

\*Corporate accounts are managed and fall under the remit of the Director of Finance

- 1.16 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 2023-2024. It is considered that the assumptions previously built into the budget and MTFS are still considered to be prudent for 2023-2024. This will be kept under review for future years and updates provided in future reports.

### Efficiencies

- 1.17 Full Council in March 2022 approved the 2022-2023 Budget and MTFS 2022-2023 to 2025-2026. Due to the one-off nature of Budget Reduction, Income Generation and Efficiencies in 2022-2023, this resulted in a net growth of £10.1 million being built back

into the MTFs for the period of 2023-2024 to 2025-2026. This is summarised in the table below:

**Table 4 – Budget Reduction, Income Generation and Efficiency totals as at February 2022**

|  | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|--|-------------------|-------------------|-------------------|
| Budget Reduction, Income Generation and Efficiency targets | 4,618             | 1,500             | 4,000             |

### **One-off Opportunities**

- 1.18 In July 2022, it was reported that due to the favourable out-turn position for 2021-2022, the Council was able to transfer underspends in the region of £2.0 million into the Future Years Budget Strategy Reserve to support the budget challenge over the medium term.
- 1.19 It was also reported that an in-depth review of grants has been undertaken to identify if any grants can be released to support the budget strategy. It was reported that £1.6 million has been identified that could be released in 2023-2024.
- 1.20 Furthermore, Cabinet was informed in October 2022, that as part of this continuous review a further £2.0 million for both 2023-2024 and 2024-2025 has been identified from grants and reserves that can be released to support the budget strategy.
- 1.21 As detailed below in paragraph 1.28, that due to the work underway to redesign Adult Services, the budget reduction target for Transforming Adult Social Care and the considerable uncertainty around the cost of adult social care, it was proposed to delete the budget reduction target for Transforming Adult Social Care. It was proposed in the October Budget report that this be offset in 2023-2024 by the releasing the Adult Social Care Reserve.
- 1.22 These one-off opportunities and their impact across financial years are also listed in full in the table below. A full list of all budget reduction, income generation and efficiencies are shown in Appendix 4:

**Table 5 –One-off Opportunities identified in 2023-2024**

|   | 2023-2024<br>£000 | 2024-2025<br>£000 | 2025-2026<br>£000 |
|---|-------------------|-------------------|-------------------|
| <b>One-off Use of Grants</b>  |                   |                   |                   |
| Housing & Council Tax Benefit Administration Grant                              | (1,000)           | 1,000             | -                 |
| Supporting Families Grant   | (1,000)           | -                 | 1,000             |
| Schools Improvement Grant   | (500)             | 500               | -                 |
| Use of other one-off small grants   | (100)             | 100               | -                 |
| <b>One-Off Use of Reserves</b>  |                   |                   |                   |
| Public Health Reserve to support WV Active Future Years Budget Strategy Reserve | (1,000)           | -                 | 1,000             |
| (including £800,000 from ASC and collection fund reserve)                       | (2,800)           | 2,800             | -                 |
| Adult Social Care Reserve (offset deletion of savings detailed in Table 6)      | (2,000)           | 2,000             | -                 |
| <b>Total</b>  | <b>8,400</b>      | <b>6,400</b>      | <b>2,000</b>      |

### **Capital Receipts Flexibilities**

- 1.23 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 taking it to 2021-2022. The use of capital receipts to fund revenue transformation was extended further until 2024-2025.
- 1.24 On 28 July 2021, Cabinet approved the draft budget strategy which included the continuation of the capital receipts flexibility until 2024-2025. In March 2022, the budget and MTFs proposed that £5 million was built into the budget for 2023-2024.
- 1.25 It is important to ensure that capital receipts are used in the most financial prudent way, balancing the need for capital investment with ensuring that a balanced budget can be set. Following review, it is proposed to reduce the use of capital receipts in the revenue budget from £5.0 million to £2.0 million from 2023-2024, this reduces risk to the revenue budget and also allows additional available receipts to be used to fund capital. As previously stated to members, capital receipts are reviewed and assessed to ensure they are applied in the most effective way.
- 1.26 The Capital Programme, as presented to Councillors for approval at this meeting, includes assumptions about the level of capital receipts to be generated in 2023-2024 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.

### Revisions to Budget Reduction Targets

- 1.27 As reported to Cabinet in October 2022, 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, the increase in cost of living and changes to the environment in which we currently operate.
- 1.28 In total £3.9 million of budget reduction targets have been identified as no longer being deliverable. Of this £2.0 million relates to Transforming Adult Social Care. Work is underway to redesign Adult Services, creating a fit for purpose structure that will better meet resident needs and ensure we have the right staffing structure in place. Following the implementation of the 3 conversations social work practice in 2018 which focuses on people and their strengths (including what people can access in their communities), it is recognised that there is a need to improve what is available in the community to support people. The redesign will have a specific focus on early intervention and prevention through community investment. The redesign was due to start in 2019 but due to the pandemic it didn't get back on track until early 2022. The structure and redesign will reflect the rising demand in adult social care alongside the increase in complexity that we are currently experiencing and expect to continue as the 'norm' for us in social care in future. On conclusion of this work, it will inform the budget requirements to support the new service model. Due to this work and the considerable uncertainty around the cost of adult social care over the medium term due to the increase in demand for services, it is proposed to delete this budget reduction target from the MTFS. It is proposed that for 2023-2024 this is offset by the use of the Adult Social Care Reserve.
- 1.29 A number of these budget reduction targets relate to prior years and have been delivered to-date from one-off efficiencies from across the directorates. Following this review, it is now considered prudent to remove these budget reduction targets from the MTFS.
- 1.30 The table below provides a list of the financial impact of the proposed revisions.

**Table 6 – Revisions to Budget Reduction proposals**

| <b>Budget Reduction Proposal</b>   | <b>2023-2024<br/>£000</b> | <b>2024-2025<br/>£000</b> | <b>2025-2026<br/>£000</b> |
|--|---------------------------|---------------------------|---------------------------|
| Transforming Adult Social Care   | 2,000                     | -                         | -                         |
| Regeneration Efficiencies (prior year and 2023-2024 target)              | 750                       | -                         | -                         |
| Depot Review   | -                         | 500                       | -                         |
| Communications Service Review (prior year target)                        | 100                       | -                         | -                         |
| Adult Education – target to break even (prior year and 2023-2024 target) | 60                        | -                         | -                         |
| Governance Efficiencies  | 100                       | -                         | -                         |
| Finance – Pension enhancements   | 150                       | -                         | -                         |
| City Environment Efficiencies  | 250                       | -                         | -                         |
| <b>Total</b>   | <b>3,410</b>              | <b>500</b>                | <b>-</b>                  |



- 1.31 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.