

## Key Assumptions for Budget Pressures 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**

	2024-2025 £000	2025-2026 £000	2026-2027 £000
Pay Award, Employers Pension, National Insurance and Annual Increments	9,145	5,585	4,200

#### Pay Award

1.3 At the time of writing this report the pay award for 2024-2025 is not known. The budget includes a provision, held corporately of 3% for 2024-2025. In the event that the pay award is in excess of this, and in-year efficiencies cannot be identified in 2024-2025, the Re-organisation Reserve 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 3% currently built into the MTFS could increase the current projected deficit. For every 1% increase in pay award costs of circa £1.8 million.

1.4 As detailed in the main report, it was reported to Cabinet in December 2023, that due to the cost of living rise and subsequent financial pressures for employees, a review of mandatory unpaid leave (MUL) has been undertaken. It is proposed that MUL is removed to ensure fairness for our employees and support with the cost of living challenges. The proposed removal of MUL will mean employee's pay will increase by 1.15% per annum – for some of our lowest paid employees this equates to an additional £257.00 in their pay packet. The total projected cost of this proposal is in the region of £1.8 million.

1.5 The MTFS currently assumes a pay award of 2% for 2025-2026 and 2026-2027

## Budget Pressures

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

**Table 2 – Budget Pressures**

	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Inflation	(3,560)	3,022	916
Demand	15,099	10,538	10,000
Development	2,565	839	1,283
<b>Total</b>	<b>14,104</b>	<b>14,399</b>	<b>12,199</b>

- 1.7 The main report discusses the main budget cost pressures; including demand and cost pressures across Adults and Children’s social care, temporary and supported accommodation, and pressures across Resident Services. In addition, it discusses a number of priority projects which are proposed to be funded from Our City, Our Plan reserve in 2024-2025, subject to businesses cases.
- 1.8 The 2023-2024 budget approved by Council on 1 March 2023, incorporated additional budget to support the costs pressures as a result of rising inflation, in particular around our energy costs. As a result, £5.7 million was built into the 2023-2024 budget to support increasing costs on both utility costs and street lighting. The Performance and Budget Monitoring reports presented to Cabinet throughout 2023-2024 have reported that costs have reduced, and as a result services are forecasting in-year underspends. As a result, this inflationary budget has been reduced accordingly in 2024-2025 to reflect this reduction.
- 1.9 The 2023-2024 budget incorporated a one-off budget of £450,000 to support pressures in relation to energy costs on the Leisure PFI. This growth has been reviewed and in order to be prudent has been rebuilt back into the budget for 2024-2025.
- 1.10 In addition, as previously reported to Cabinet in October 2023, that as a result of contract negotiations being more favourable regarding the Energy from Waste Plant (EfW), the growth built into 2023-2024 budget was no longer required. Therefore £3.6 million can be released from budgets held corporately of which £1.8 million is one-off for 2024-2025.
- 1.11 It is important to note that these cost pressures are subject to change. The current cost of living crisis has impacted the budget and MTFs and it is not known how long these cost pressures will go on for.
- 1.12 The Budget and MTFs reported to Full Council in March 2023, approved growth and inflation totalling £13.7 million for the period of 2024-2025 to 2025-2026. Additional inflationary pressures have been identified in 2024-2025 and over the medium term due to rising inflation and increasing demand on our services. This has resulted in the projected required growth increasing to £40.7 million over the medium term to 2026-2027 (this includes £12.2 million following the rolling forward of the MTFs into 2026-2027).

1.13 A full list of all budget growth and emerging budget pressures that have been reflected in the budget and MTF5 is provided in tables 3 to 5 below:

**Table 3 – Budget Pressures – Inflationary**

<b>Directorate</b>	<b>Changes to inflationary pressures</b>	<b>2024-2025 £000</b>	<b>2025-2026 £000</b>	<b>2026-2027 £000</b>
Resident Services	Waste services – contract inflation and disposal costs (part to be held corporately)	642	142	-
Corporate Accounts	Inflation – WMCA levy (to be held in corporate contingency)	370	222	226
Resident Services	Environmental Services – winter gritting	350	-	-
Governance	Rebasing of budget to reflect updated recharges	277	-	-
Corporate Accounts	Growth for inflation, energy, contracts and demography*	168	768	500
Resident Services	Environmental Services - reduction in income – rebasing budget	111	-	-
Public Health & Wellbeing	Leisure PFI – inflationary costs	90	90	90
Public Health & Wellbeing	Bert Williams – rebase budget	84	-	-
Resident Services	Cost pressures in Public Protection	56	-	-
Resident Services	Environmental Services – rebase budget for security costs within parks	43	-	-
Resident Services	Transport services – rebase of staffing budget	40	-	-
Resident Services	Highways – rebase budget to support waste disposal costs	36	-	-
Resident Services	Highways – rebase budget to support rental costs	30	-	-
City Assets	Revisions to prior year growth built in for energy costs	(640)	-	-
Resident Services	Revisions to prior year growth built in for Street lighting	(917)	-	-
Corporate Accounts	Revisions to growth built in prior years	(4,100)	1,800	-
Corporate Accounts	Adjustments to prior year growth for NNDR	(200)	-	100
<b>Total</b>		<b>(3,560)</b>	<b>3,022</b>	<b>916</b>

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

**Table 4 – Budget Pressures – Demand pressures**

<b>Directorate</b>	<b>Changes to demand pressures</b>	<b>2024-2025 £000</b>	<b>2025-2026 £000</b>	<b>2026-2027 £000</b>
Adult Social Care	Adult social care inflation and demand pressures*	10,699	6,038	6,000
Children's Services	Children's Social Care – inflation and demand pressures*	2,500	2,250	2,000
Public Health and Finance	Temporary accommodation and Housing subsidy (held corporately)*	1,900	1,750	1,500
Resident Services	Home to School transport	500	500	500
Residents Services	Car Parking – adjustments to prior year growth	(300)	-	-
Corporate Accounts	Adjustments to bad debt provision	(200)	-	-
<b>Total</b>		<b>15,099</b>	<b>10,538</b>	<b>10,000</b>

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

**Table 5 – Budget Pressures – Development**

<b>Directorate</b>	<b>Changes to development pressures</b>	<b>2024-2025 £000</b>	<b>2025-2026 £000</b>	<b>2026-2027 £000</b>
Corporate Accounts	Contingency for priorities and emerging pressures	2,011	629	-
Education	Rebasing of SEND budgets	700	300	-
Finance	Council Tax hardship Fund (2024-2025 only)	300	(300)	-
Strategy	ICT licencing costs	300	-	-
Resident Services	Rebase Fleet staff budgets	96	-	-
Resident Services	Rebase Travel Unit staff budgets	47	-	-
Resident Services	Rebase Waste staff budgets	40	-	-
Governance	Rebase Governance staff budgets	36	-	-
Regeneration	Wolverhampton Local Plan – rephasing of prior year growth	(110)	210	(275)
City Assets	Changes to income targets	(855)	-	1,558
<b>Governance</b>		<b>2,565</b>	<b>839</b>	<b>1,283</b>

- 1.14 The level of borrowing required to support the capital programme and treasury management activities has been reviewed and forecasts tested to ascertain the budget requirement for 2024-2025. The budget has been updated to reflect the latest projections which has resulted in decrease of £1.0 million on the 2023-2024 budget.
- 1.15 It is considered that the assumptions previously built into the budget and MTFs are still considered to be prudent for 2024-2025. This will be kept under review for future years and updates provided in future reports.

### **Budget Reduction, Income Generation and Efficiency Targets**

#### **One-off Opportunities**

- 1.16 As detailed in the main report, a number of the budget reduction and income generation proposals are one-off in nature and as a result are built back into the budget in future years. Full Council in March 2023 approved the 2023-2024 Budget and MTFs 2023-2024 to 2025-2026. This incorporated £9.8 million of proposals which were one-off in nature for 2023-2024 and as such have been built back into the budget in 2024-2025.
- 1.17 The Reserves and Provisions report to Cabinet in July 2023, approved the use of £5.8 million from the Future Years Budget Strategy Reserve to fund either the 2023-2024 corporately held efficiency targets and / or support the projected budget deficit for 2024-2025. The Draft budget report to Cabinet in October reported that £3.2 million of the reserve could be used to support the projected budget deficit for 2024-2025, but this would be kept under review. This review has identified that a further £1.5 million can be released to support the 2024-2025 budget, taking the total £4.7 million.
- 1.18 As detailed in the main report, corporate priorities have been identified including Yo!, the roll out of the Hydrotreated Vegetable Oil (HVO) pilot project into 2024-2025, the Events Strategy (reported to Cabinet in October 2023), and the Council Tax Hardship Fund. It is proposed that subject to business cases (excluding Council Tax Hardship Fund), these be funded from Our City, Our Plan Reserve in 2024-2025, and the continuation of these projects into future years be considered as part of the Budget and MTFs. The projected total cost of these initiatives is £1.3 million.
- 1.19 In addition, a review has been undertaken on grants to identify if any grant can be released to support the budget strategy. As a result, it is proposed to release £230,000 for 2024-2025.

#### **Capital Receipts Flexibilities**

- 1.20 In 2016-2017 the Government provided additional flexibilities to councils to use capital receipts from April 2016 to March 2019 to pay for transformation work that is designed to make revenue savings. Since this date the use of capital receipts to fund revenue transformation has been extended a number of times. The latest announcement on 31 January 2024 extended this flexibility to the March 2030. In addition, Government have

consulted on a number of proposals as to what capital receipts can be used to support, including, extending the flexibility to include ‘wider set of eligible costs’; to allow authorities to capitalise general cost pressures, and allowing flexibility for the use of the proceeds of selling investment assets. At the time of writing this report the outcome of the consultation is unknown. Once this information becomes available updates will be provided in future reports.

- 1.21 The MTFs approved by Full Council on 1 March 2023, identified £2.0 million use of capital receipt flexibilities for 2024-2025. Following a review, it is now proposed to increase this by a further £2.0 million taking the total to £4.0 million in 2024-2025. The Council can be assured that any application of capital receipt flexibility will be fully documented and evidenced by the Council’s Section 151 Officer.
- 1.22 As previously stated to Councillors, capital receipts are reviewed and assessed by the Director of Finance to ensure they are applied in the most prudent and effective way.
- 1.23 The Capital Programme, as presented to Councillors for approval at this meeting, includes assumptions about the level of capital receipts to be generated in 2024-2025 and the use of capital receipts to pay for revenue costs. This is also reflected in the MTFs.
- 1.24 These one-off opportunities and their impact across financial years are also listed in full in the table below.

**Table 6 –New One-off Opportunities included in the Budget and MTFs**

	<b>2024-2025</b>	<b>2025-2026</b>	<b>2026-2027</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>New one-off opportunities</b>			
Use of Future Years Budget Strategy Reserve	(4,664)	4,664	-
Use of Our City, Our Plan Reserve to support council priorities	(1,342)	1,342	-
Use of one-off grants	(230)	230	-
Additional use of Capital Receipts flexibility	(2,000)	2,000	-
<b>Total New one-off opportunities</b>	<b>(8,236)</b>	<b>8,236</b>	<b>-</b>

**Revisions to Budget Reduction Targets**

- 1.25 As reported to Cabinet in October 2023, in depth reviews have been undertaken on existing budget reduction and income generation proposals. This has been particularly important in light of the increasing costs and changes to the environment in which we currently operate.
- 1.26 It was reported in October that budget reduction targets totalling £393,000 would not be delivered as originally planned, and therefore it was proposed to remove these from the MTFs. This target is within the Governance Directorate.

- 1.27 As detailed in the main report, the MTFS reported to Cabinet in October 2023, incorporates efficiency targets held corporately which were built into the budget in recognition of prior year underspends. The 2023-2024 budget incorporate a target of £6.2 million (of which £2.0 million has been delivered on a recurrent basis), with a further £2.6 million in 2024-2025, and £4.8 million in 2025-2026. These have been reviewed and due to the cost pressures facing a number of services, it is proposed these targets be built back it the budget and MTFS.
- 1.28 The table below provides a list of the proposed revisions.

**Table 7 – Revisions to Budget Reduction proposals**

Budget Reduction Proposal	2024-2025 £000	2025-2026 £000	2026-2027 £000
Prior Year Governance efficiency target	393	-	-
Revisions to efficiency targets held corporately for 2023-2024	4,225	-	-
Revisions to efficiency targets held for 2024-2025 and 2025-2026	2,600	4,850	-
<b>Total</b>	<b>7,218</b>	<b>4,850</b>	-

- 1.29 The 2023-2024 budget approved by Full Council in March 2023, reported that a total of £1.6 million had been vired from efficiencies across a number of services to Human Resources in order to support the Transforming People Services Programme. A number of these virements have been allocated against staff related budget, without impacting on service delivery or staff recruitment. It is proposed, that where appropriate these virements are reallocated against the vacancy factor, increasing the vacancy factor target from £1.2 million (already incorporated into the budget) to £1.5 million.

**New Budget Reduction and Income Generation Proposals**

- 1.30 The budget and MTFS incorporates a number of recurrent budget reduction, income generation and efficiency proposals, a full list of which can be found in Appendix 4.
- 1.31 As reported to Cabinet in October, additional income is projected within Waste Services, as a result £1.0 million was built into the Budget and MTFS as a working assumption. Following capital investment in the plant, this assumption has been reviewed and as a result increased to £1.5 million.
- 1.32 As detailed in the main report a number of income generation opportunities have also been explored and in response income targets have been incorporated into the budget for WV Active, events and advertising, and e-services to schools.
- 1.33 In addition, a number of efficiencies have also been identified from across services, including reduction to the budget held for furniture replacement, cancelling of subscriptions, and training budgets.