

## Update on Selected Risk for Review

Risk title and description	Previous score (Feb 2016)	Direction of travel	Current score (June 2016)	Target score and date
<p><b>Medium Term Financial Strategy</b></p> <p>If the Council does not manage the risks associated with the successful delivery of its medium term financial strategy including the continual review of the assumptions and projections of the strategy, the effective management of the key MTFS programmes and projects then this may exhaust reserves, result in the potential loss of democratic control and the inability of the Council to deliver essential services and discharge its statutory duties.</p> <p>Risk owner: Keith Ireland Cabinet Member: Cllr Andrew Johnson</p>	12 Amber		12 Amber	8 Amber On-going

### Background and progress to date

- 1.1 The Medium-term Financial Strategy (MTFS) is key to delivering our corporate plan objectives. Prudent financial management and planning has ensured the council is on firm foundations and the budget has been underspent for the last two years.
- 1.2 Through careful and considered planning, the Council has already made cuts of £175 million over the past six years. Further, the council identified sufficient budget reduction proposals to set a balanced budget for 2016/17 without the need to call on general reserves.
- 1.3 Significant further budget reduction proposals and income generation ideas are required for 2018/19 and 2019/20 and planning is well underway.
- 1.4 There are rigorous processes in place to develop and monitor the delivery of the MTFS which are outlined here.

## **Review of the assumptions and projections**

- 2.1 The assumptions and projections in the MTFs are reviewed regularly by Strategic Finance and updates are reported to Cabinet.

## **Key projections in the MTFs**

### **3.1 Local taxes**

The Strategic Finance Team work closely with colleagues in Revenues and Benefits to monitor and project income from Council Tax and Business Rates. Very prudent assumptions about growth are built into the MTFs. Provision is made for business rates appeals, collectability and bad debts.

### **3.2 Government Grant**

In addition to providing the Council with final settlement figures for 2016/17, the Government have also provided each authority with indicative core government grant allocations for 2017/18 to 2019/20, to cover the Parliamentary period. The Secretary of State also announced the option for councils to sign up to a four year settlement. The council has taken up this offer. A four year settlement will enable greater certainty when forecasting and planning. The council is currently waiting for the government to announce the settlement figure.

### **3.3 Inflation and other growth factors**

The MTFs contains assumptions about growth required for inflation, demographic changes and service developments. The assumptions are reviewed throughout the year and where required, proposed changes are reported to Cabinet. The following factors inform the review of assumptions:

- In-year monitoring of budgets
- Benchmarking
- Contract negotiations
- Analysis of trend data
- Data from the Office of National Statistics
- National pay negotiations
- Triennial revaluation of the West Midlands Pension Fund

## **Monitoring the current year financial position**

- 4.1 Approved budgets fully reflect the MTFs including budget reduction and income generation schemes. This ensures that such schemes are fully embedded in budget monitoring. Budget managers are identified for each budget area and are required to provide monthly budget monitoring information and highlight any areas of concern.
- 4.2 Quarterly budget monitoring information is reported to Cabinet (Resources) Panel.
- 4.3 The in-year budget monitoring informs the continuous review of the MTFs including progress on delivery of savings and emerging pressures.

## **Management of key budget reduction programmes**

- 5.1 Where budget reduction and income generation projects are determined to be complex or high risk, in terms of delivery, there are specific governance arrangements in place, namely the Adults Budget Development Working Group and the Children's Services Budget Group. These meetings are attended by councillors and oversee the transformation of the service area and the delivery of budget reduction programmes.

## **Capital Programme and Treasury Management**

- 6.1 Funding investment in jobs, opportunity and growth is key to the council's capital programme in line with the Corporate Plan priorities. Recent examples of prudent borrowing to fund investment includes the i54 hi-tech enterprise zone, the i10 grade A office block in the city centre, the £13 million investment in a former Sainsbury's city centre site and key gateway to the city and the council's FutureSpace programme. On the back of a successful £270 million Building Schools for the Future (BSF) programme, the council has made £30 million capital investment in expanding primary schools to improve educational attainment. The council has also been successful in generating millions of pounds of external funding to invest in jobs, opportunity and growth
- 6.2 The capital programme is reviewed in detail each quarter and reported to Cabinet (Resources) Panel. Work is being undertaken to develop the use of Agresso and Verto, the Council's project management system, to improve the information available to project managers.
- 6.3 Funding requirements from the Capital Programme inform the Treasury Management Strategy and monitoring. The revenue costs of projected borrowing requirements are then used to update the MTFs accordingly.

## **External review**

### **7.1 External Audit**

On 19 September the Council's external Auditors, Grant Thornton reported to the Audit and Risk Committee on The Audit Findings for City of Wolverhampton Council. Grant Thornton considered:

- What arrangements the Council has in place for identifying, agreeing and monitoring its forward sustainability and operational plans, and communicating key findings to the Cabinet and Audit Committee.
- What plans are being put in place by the Director of Education and his team to improve the performance of the schools during the year and for continuing to improve the levels of educational achievement for the City's young people going forward.
- What actions are being undertaken within Adult and Children's Social Care to address overspends in Older People and Disability & Mental Health, and to control the numbers of Looked after Children.
- What actions have been taken against the risks identified in the 2014-15 Annual Governance Statement in respect of Strategic Asset Management, and whether they are embedded and have been effective.

- 7.2 Grant Thornton reported that ‘Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources’
- 7.3 Specifically in relation to the Medium Term Financial Resilience, Grant Thornton concluded that ‘the risk was sufficiently mitigated and the Council has proper arrangements’.

### **Finance Peer Review**

- 8.1 As part of the process of ensuring we are providing the best service, the City of Wolverhampton Council invited the LGA to carry out a Finance Peer Review which took place on 7, 8 and 9 June 2016.
- 8.2 As part of the process the Peer Team spoke to more than 40 people, including a range of Council staff together with Councillors and external stakeholders. They gathered information and views from more than 20 meetings and additional research and reading, collectively spending more than 150 hours to determine their findings
- 8.3 The overall conclusion of the Peer Team was that:

*‘The Council has made major progress in its aim to achieve financial stability. There is strong leadership, prudent financial management and clear evidence of innovation. It is now timely to reflect on and refine the Financial Strategy so it further enables and supports the delivery of the ambitions of the City’.*

- 8.4 The overall messages and observations of the Peer Team were:
- There has been significant progress, developments and improvements resulting in a good grasp of the current budgetary position and understanding of the future financial challenge.
  - There is visible and well respected leadership –both political and managerial –that provides a clear and consistent message about the scale of the challenge and the imperatives of responding to it.
  - The finance function is well regarded and respected by Councillors and managers, and clearly plays an enabling role that supports transformation and the delivery of financial savings across directorates.
  - The key governance, processes and systems -including digital capability -that support and enable financial planning, monitoring and management are in place or are being developed.
  - The components of the financial strategy –including commercialisation and demand management –are consistent with practice in the sector.

- It is now timely to reflect on the strategy, approach and pace in light of the current position and future aspirations.
- The challenge remains significant and there is no room for complacency. The fundamental requirement to deliver on existing proposals whilst formulating new ones remains.

8.5 The following are the Peer Team's key recommendations to the Council:

- Review and refresh the strategic narrative for addressing the budget deficit so there is further clarity on aspirations, ethos and work streams.
- Revisit and review some of the assumptions and approaches in the financial strategy so that they better reflect and support the future ambitions of the Council.
- Review the Medium Term Financial Strategy risk on the Strategic Risk Register.
- Continue the work on developing the alignment, linkage and interdependency of the financial strategy and information with other plans and processes.
- Make the approach to capital programming more robust.
- Further consider the balance, emphasis and pace between the different components of the financial strategy going forward.

An action plan has been developed. Progress against the action plan is reported to the Confident, Capable, Council Scrutiny Panel.