

Cabinet Meeting

19 July 2017

Report title	Draft Budget and Medium Term Financial Strategy 2018-2019 - 2019-2020	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Keith Ireland, Managing Director	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Confident Capable Council Scrutiny Panel	4 July 2017 27 September 2017

Recommendations for decision:

That Cabinet is recommended to approve:

1. That the budget reduction proposals amounting to £12.5 million in 2018-2019 be further developed, including the necessary equalities analyses, for inclusion in the Draft Budget and Medium Term Financial Strategy 2018-2019 – 2019-2020, to be reported to Cabinet in October 2017 for approval to proceed to the formal consultation and scrutiny stages of the budget process.
2. That work continues between July and October 2017 to further develop and identify additional budget reduction and income generation proposals totalling £2.3 million, in order to ensure that a balanced budget can be set in 2018-2019.

3. That work continues to identify additional recurring budget reduction opportunities that will work towards the remaining budget challenge to be delivered by 2019-2020. An update on progress will be incorporated into the October report to Cabinet.

Recommendations for noting:

That Cabinet is asked to note:

1. That of the total £12.5 million budget reduction proposals identified at this stage for 2018-2019, £5.0 million are ongoing budget reduction proposals, as detailed in Appendix A, whilst £7.5 million are one-off budget reduction proposals, as detailed in Appendix B. Therefore, a significant element of the budget reduction proposals relate to one-off opportunities that can be achieved in 2018-2019. Taking this into account, the remaining cumulative budget challenge to be identified by 2019-20 stands at £15.5 million.
2. That the updated projected deficit assumes the achievement of budget reduction proposals amounting to £33.8 million over the three year period to 2019-2020. Over the last seven financial years the Council has identified budget reductions in excess of £200.0 million. This continues to be the most significant financial challenge that the Council has ever faced.
3. That due to external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
4. That while significant progress is being made towards identifying the projected budget deficit for 2018-2019; work continues to identify possibilities to deliver the remaining £2.3 million of budget reduction and income generation targets for 2018-2019.
5. That the General Fund revenue outturn position for 2016-2017 was a net underspend of £266,000 (-0.12%) against the net budget requirement of £217.4 million, after meeting the net cost of redundancy after the use of capital receipt flexibility and contributions to essential specific reserves, as reported to Cabinet at this meeting in the Revenue Budget Outturn 2016-2017 report.
6. That the positive General Fund outturn position for 2016-2017 will help to support the Council's short term financial position, enabling one-off investment to support transformation of the Council, however, it is important to note that it does not address the challenging financial position that the Council finds itself in over the medium term; as detailed in this report.
7. That an element of the underspend arising within the 2016-2017 General Fund outturn is already factored into the Council's Medium Term Financial Strategy (MTFS), including the early achievement of approved budget reductions.

8. That the Council's General Fund Balance remains at £10.0 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis therefore continues to be placed on identifying budget reductions and income generation proposals to meet the projected budget deficit over the medium term.
9. That the 2018-2019 budget timetable will, as in previous years, include an updated report presented to Cabinet in October 2017 detailing budget reduction and income generation proposals that will be subject to formal budget consultation and scrutiny during October – December 2017. Further to this, an update on all budget assumptions and the Provisional Local Government Settlement will be presented to Cabinet by January 2018, with the final budget report due to be approved by Full Council in March 2018.

1.0 Purpose

- 1.1 The purpose of this report is to provide Councillors with an update on progress towards identifying additional budget reduction proposals in order to address the projected £14.8 million budget deficit for 2018-2019.
- 1.2 This report is the first of the financial year on the budget and Medium Term Financial Strategy (MTFS) and provides an update on some key factors, the timetable for the budget process and the risks in relation to them.

2.0 Background and Summary

- 2.1 The 2017/18 Budget and Medium Term Financial Strategy (MTFS) 2017/18 - 2019/20 was presented to Full Council for approval on 1 March 2017. After updating the MTFS for changes in assumptions and the outcome of the Local Government Finance Settlement, the Council was able to set a balanced budget for 2017-2018 without the use of general fund reserves; however the Council is now faced with finding further estimated budget reductions totalling £20.5 million by 2019-2020.
- 2.2 It is important to note that the updated projected deficit assumes the achievement of budget reduction proposals amounting to £33.8 million over the three year period from 2017-2018 to 2019-2020. Over the last seven financial years the Council has identified budget reductions in excess of £200.0 million. This continues to be the most significant financial challenge that the Council has ever faced.
- 2.3 In March 2017, Full Council approved that work started immediately to identify £14.8 million of budget reduction and income generation proposals to address the projected deficit in 2018-2019, with an update on progress to be reported to Cabinet in July 2017.
- 2.4 A further £5.7 million of budget reduction and income generation proposals need to be identified, over and above the target for 2018-2019, in order to address the projected budget deficit over the medium term to 2019-2020.
- 2.5 It should be noted that due to external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
- 2.6 Since the 2017-2018 budget was set, detailed work has progressed across all areas of the Council to identify £14.8 million of budget reduction and income generation targets for 2018-2019.
- 2.7 This report provides an update on the identification of budget reduction and income generation proposals for 2018-2019, proposes a high level strategy for budget reduction proposals over the medium term to 2019-2020 and details the pressures that the Council currently faces.

3.0 Proposals for 2018-2019

- 3.1 Since the 2017-2018 budget was set in March 2017, detailed work has taken place to identify budget reduction and income generation opportunities for 2018-2019.
- 3.2 When identifying budget reduction and income generation opportunities, the Council's strategic approach to address the budget deficit continues to be to align resources to the Corporate Plan to achieve:
- a Stronger Economy,
 - a Stronger Community,
 - a Stronger Organisation.
- Investment in the future is essential for both the Council and the City.
- 3.3 The 2018-2019 proposals that have been identified at this stage are summarised by Cabinet Portfolio in the table below:

Table 1 – 2018-2019 Proposals by Cabinet Portfolio

Cabinet Portfolio	No.	2018-2019 £000
Resources	9	(10,890)
Governance	3	(230)
City Assets and Housing	1	(1,000)
City Environment	1	(400)
Adults	-	-
Children and Young People	-	-
Public Health and Wellbeing	-	-
City Economy	-	-
Education	-	-
Total	14	(12,520)

- 3.4 As can be seen from the table above, the Council has currently identified a total of £12.5 million budget reduction proposals towards the strategy of identifying £14.8 million for 2018-2019. Further details on the proposals can be found in Appendices A and B.
- 3.5 Whilst this represents significant progress towards identifying the projected budget deficit for 2018-2019, work is continuing to identify possibilities to deliver the remaining estimated £2.3 million of budget reduction proposals required for 2018-2019. It is therefore proposed that Cabinet approve that work continues between July and October 2017 to further develop and identify additional budget reduction and income generation proposals totalling £2.3 million in order to ensure that a balanced budget can be set in 2018-2019.

- 3.6 Of the total £12.5 million budget reduction proposals identified at this stage for 2018-2019, it is important to note that £5.0 million are ongoing budget reduction proposals, as detailed in Appendix A, whilst £7.5 million are one-off budget reduction proposals, as detailed in Appendix B. Therefore, a significant element of the budget reduction proposals relate to one-off opportunities that can be achieved in 2018-2019. Taking this into account, the remaining cumulative budget challenge to be identified by 2019-2020 stands at £15.5 million.
- 3.7 Given the challenging financial environment which the Council finds itself in, a focus on medium term financial planning is vital. It is therefore proposed that Cabinet approve that work continues to identify additional recurring budget reduction opportunities that will work towards the remaining budget challenge to be delivered by 2019-2020. An update on progress will be incorporated into the October report to Cabinet.
- 3.8 As in previous years, the proposals for 2018-2019 will be classified as either Budget Reduction and Income Generation Proposals or Financial Transactions and Base Budget Revisions. Budget Reduction and Income Generation Proposals are those upon which the outcome of formal budget consultation is required, whilst Financial Transactions and Base Budget Revisions are proposals which can be implemented without reliance on the outcome of formal budget consultation. At this stage, the majority of proposals currently identified are Financial Transactions and Base Budget Revisions.
- 3.9 It is important to note that the projected deficit approved by Council in March 2017 assumes the achievement of budget reduction proposals identified across most portfolio areas amounting to £33.8 million over the three year period from 2017-2018 to 2019-2020.

4.0 General Fund Outturn and General Balances

- 4.1 The General Fund revenue outturn position for 2016-2017 was a net underspend of £266,000 (-0.12%) against the net budget requirement of £217.4 million, after meeting the net cost of redundancy after the use of capital receipt flexibility and contributions to essential specific reserves, as reported to Cabinet at this meeting in the Revenue Budget Outturn 2016-2017 report.
- 4.2 The positive General Fund outturn position for 2016-2017 will help to support the Council's short term financial position, enabling one-off investment to support transformation of the Council, however it is important to note that it does not address the challenging financial position that the Council finds itself in over the medium term; as detailed in this report.
- 4.3 An element of the underspend arising within the 2016-2017 General Fund outturn is already factored into the Council's Medium Term Financial Strategy, including the early achievement of approved budget reductions. Nevertheless, a comprehensive review of all service areas will take place to challenge areas of underspend in 2016-2017. Any budget reductions arising as a result of this review will be incorporated into the Draft

Budget and Medium Term Financial Strategy report due to be presented to Cabinet in October 2017.

- 4.4 The General Fund Balance remains at £10.0 million; the minimum balance as determined in the Council's approved Reserves and Balances Policy. Emphasis continues to be placed on identifying budget reductions and income generation proposals to meet the projected budget deficit over the medium term.

5.0 Update on Key Factors

- 5.1 The assumptions used in the preparation of the budget and Medium Term Financial Strategy (MTFS) remain under constant review and update.
- 5.2 The 2017-2018 budget includes previously approved budget reductions totalling £23.4 million. The achievement of these budget reductions is monitored throughout the financial year during the revenue budget monitoring process, with updates provided to Cabinet (Resources) Panel quarterly on the forecast outturn by service.
- 5.3 In the Revenue Budget Outturn 2016-2017 report, presented to Cabinet at this meeting, the outturn includes budget pressures that have been realised within some service areas including Waste and Recycling and Learning Disabilities Assessment & Care Management due to the delayed achievement of some budget reduction proposals. In addition to this, pressures against care purchasing budgets due to increasing demand for support also created a budget pressure in 2016-2017. Service budgets will be closely monitored throughout 2017-2018, with service areas focused on identifying ways to mitigate any pressures that arise.

6.0 Budget Risk Management and Timetable

- 6.1 A summary of the 2018-2019 budget setting process timetable is detailed in the table below:

Table 2 – Budget Timetable

Milestone	Deadline
Report to Cabinet	19 July 2017
Intensive work to develop proposals	July – October 2017
Draft Budget and Medium Term Financial Strategy (MTFS) 2018-2019 – 2019-2020 report to Cabinet	18 October 2017
Formal Budget Consultation and Scrutiny	19 October – 31 December 2017
Report to Cabinet (Resources) Panel following the Local Government Financial Settlement	16 January 2018
Final Budget Report 2018-2019 to Cabinet	21 February 2018
Full Council Approval of Final Budget 2018-2019	7 March 2018

- 6.2 The overall level of risk associated with the Draft Budget and Medium Term Financial Strategy (MTFS) 2017-2018 – 2019-2020 is assessed as Amber. The following table provides a summary of the risks associated with the MTFS, using the corporate risk management methodology.

Table 3 - General Fund Budget Risks 2017-2018 – 2019-2020

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, Equal Pay and National Living Wage	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 identifying budget reductions, 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	<p>Risks that might materialise as a result of the Final Local Government Finance Settlement.</p> <p>Risks that might materialise as a result of income being below budgeted levels, claw back, reduction to government grant or increased levels of bad debts.</p> <p>The risk of successful appeals against business rates.</p>	Amber
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Amber
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 as a result of changes to Government policy including changes in VAT and taxation rules, the impact of exiting the European Union and, in particular, from the Care Bill.	Red
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7.0 Financial Implications

- 7.1 The financial implications are discussed in the body of the report.
[MH/04072017/H]

8.0 Legal Implications

- 8.1 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 savings proposals.
- 8.2 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.
- 8.3 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.
- 8.4 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).
- 8.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '**...make a report ... if it appears to him 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.

- 8.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to him 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.
- 8.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2018-2019.
[TS/10072017/W]

9.0 Equalities implications

- 9.1 The further development of the various budget reduction proposals for Cabinet's consideration in October will include an initial equalities screening for each proposal and, where necessary, a full equalities analysis. This will enable Councillors to pay due regard to the equalities impact of their budget decisions. The Council will publish the equalities analyses as part of its public consultation around the 2018-2019 budget.

10.0 Human resources implications

- 10.1 In line with the Council's statutory duties as an employer under the Trade Union Labour Relations (Consolidation) Act 1992, an HR1 form has been issued to the Secretary of State for Business, Innovation and Skills identifying the intention to reduce the workforce by up to 1,000 jobs across the Council in the period up to 31 March 2017 through both voluntary redundancy and budget reduction targets which will result in compulsory redundancies. This was to comply with the Council's announcement in 2013, that there would be 2,000 job losses. To date there have been 1,770 employees leave City of Wolverhampton Council through voluntary redundancy and 324 under compulsory redundancy. Further redundancies will be required in order to achieve the proposed budget reductions. A further HR1 will be issued, identifying the intention to reduce the workforce by up to a further 500 jobs in the period up to 31 March 2018.
- 10.2 As part of the ongoing transformation of the Council, although many services are being, or will be, redesigned, it is not anticipated that as many employees will exit the organisation as in previous years. Changes to the make up of teams and alternative ways of working will require services to be restructured, but numbers will not reduce as significantly as they have done previously.
- 10.3 The numbers included in the HR1 will include posts held by colleagues who, as part of the business review and restructure, need to be included, as they will need to be put at risk of redundancy. However, many of these employees will apply and be offered jobs in the new structure and therefore the number of employees leaving the authority is anticipated to be far fewer than the number declared on the HR1.

- 10.4 Reductions in employee numbers will be achieved in line with the Council's HR policies. Compulsory redundancies will be mitigated as far as is possible through seeking voluntary redundancies in the first instance, and through access to redeployment.
- 10.5 The Council will ensure that appropriate support is made available to employees who are at risk of and selected for redundancy, and will work with partner and external agencies to provide support. Budget reduction targets to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations. If TUPE were to apply, appropriate consultation with relevant Trade Unions and affected employees, would take place.
- 10.6 There is on-going consultation with the trade unions on the impact of the Council's budgetary position and the targets being made to meet the challenges posed by it.

11.0 Schedule of Background Papers

Revenue Budget Outturn 2016-2017, report to Cabinet, 19 July 2017.

Reserves, Provisions and Balances 2016-2017, report to Cabinet, 19 July 2017.

2016/17 Budget and Medium Term Financial Strategy 2017/18 – 2019/20, report to Full Council, 1 March 2017.

Ongoing Budget Reduction Proposals by Cabinet Portfolio

Resources

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
Corporate Budget – reduction in funding over the required level for Adult Social Care	Resources	Corporate	(700)
Savings arising as a result of Senior Management Restructure	Resources	Corporate	(260)
Risk Management and Insurance – saving arising as a result of insurance contract renegotiation (net of potential pressures)	Resources	Corporate	(300)
Anticipated reduction in Integrated Transport Authority (ITA) Levy	Resources	Corporate	(250)
Audit Services – removal of vacant posts	Resources	Corporate	(30)
Pension Budget savings arising as a result of making additional upfront payments to the West Midlands Pension Fund for future years past service deficit costs	Resources	Corporate	(2,375)

Ongoing Budget Reduction Opportunities by Cabinet Portfolio

Governance

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
Health and Safety – saving arising as a result of lower than expected Lone Worker system costs	Governance	Corporate	(50)

City Assets and Housing

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
Facilities Management Review – allowance for anticipated increasing costs no longer required	City Assets and Housing	Place	(1,000)

One-off Budget Reduction Proposals by Cabinet Portfolio

Resources

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
One-off savings due to the additional S31 grant relating to Business Rates	Resources	Corporate	(210)
Elections - one-off savings due to the application of the Individual Electoral Registration (IER) grant held on the balance sheet	Resources	Corporate	(80)
Pension Budget savings arising as a result of making additional upfront payments to the West Midlands Pension Fund for future years past service deficit costs	Resources	Corporate	(5,585)
Treasury Management savings arising predominately as a result of reducing the provision for Capitalisation Risks	Resources	Corporate	(1,100)

Governance

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
Human Resources – one-off saving arising as a result of using Workforce Development grant held on the balance sheet to support training costs	Governance	Corporate	(150)
Register Office - one-off saving arising as a result of the application of the Tell Us Once grant held on the balance sheet.	Governance	Corporate	(30)

One-off Budget Reduction Proposals by Cabinet Portfolio

City Environment

Description of Proposal	Cabinet Portfolio	Directorate	2018-2019 £000
Highways Management – use of Bus Lane enforcement reserve to support Highways costs	City Environment	Place	(400)