



Cabinet Meeting

25 February 2015

Report title	Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19	
Decision designation	RED	
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 Financial Services	
Accountable employee(s)	Mark Taylor	Director of Finance
	Tel	01902 556609
	Email	mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board	12 February 2015
	Confident Capable Council Scrutiny Panel	22 April 2015

Recommendations for action or decision:

That Cabinet is recommended to approve:

1. The changes to the 2015/16 draft budget for General Fund services, since the draft budget was last reported to Cabinet on 4 February 2015, as detailed in sections 4 and 5.
2. The formal response to the budget consultation, as detailed at section 10, which has been reflected in the 2015/16 net budget requirement presented to Councillors for approval.
3. The formal response to the budget scrutiny, as detailed at section 11, which has been reflected in the 2015/16 net budget requirement presented to Councillors for approval.
4. That due to the extreme uncertainty facing the Council and the potentially significant impact that this has on the accuracy of financial projections the period of the medium

term financial strategy should continue to extend to 2018/19 only, for the foreseeable future (paragraph 6.8).

5. That authority is delegated to the Cabinet Member for Resources in consultation with the Director of Finance to approve the Financial Plan (paragraph 6.10)

That Cabinet recommends that Council approves:

1. The net budget requirement for 2015/16 of £224.9 million for General Fund services (paragraph 6.4).
2. The Medium Term Financial Strategy 2015/16 to 2018/19 as detailed in Table 6.
3. A Council Tax for Council services in 2015/16 of £1,369.64 for a Band D property, being an increase of 1.99% on 2014/15 levels (paragraph 4.6.1).
4. That £20 million of additional savings for 2016/17 should be identified and reported to Cabinet in June 2015, in order to demonstrate that a balanced budget can be achieved in 2016/17 (paragraph 6.5).

Recommendations for noting:

That Cabinet recommends that Council notes:

1. That recasting the projected budget challenge to include pressures that we have become aware of during the last year has resulted in the budget challenge increasing from £123 million to £134 million over the period 2014/15 to 2018/19. The increase is largely due to the rising costs of Looked After Children, pay and pension costs, and continuing Government grant cuts. However, savings totalling £87.8 million have been identified during the 2014/15 and 2015/16 budget setting processes, therefore the remaining projected budget challenge stands at £46.3 million up to 2018/19 (paragraph 6.12 and 6.13).
2. That the budget for 2015/16 is in balance without the use of general reserves (paragraph 6.2).
3. That all other aspects of the draft 2015/16 Budget and Medium Term Financial Strategy, previously approved by Cabinet on 22 October 2014, 14 January 2015 and 4 February 2015, remain unchanged.
4. That, in the opinion of the Director of Finance (Section 151 Officer); the 2015/16 budget estimates are robust (paragraph 6.4).
5. That, in the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year (paragraph 7.2.2).

6. That Leading Counsel's opinion on the revised MRP Policy was that it is lawful and that the Director of Finance considers that the revised approach is prudent. At the time of writing, the Council's external auditor has referred the revised policy to the Audit Commission's Technical Team for an opinion; a response is awaited (paragraph 4.5.5 and 4.5.6).
7. That after taking account of the £20 million savings target for 2016/17, a further £26 million needs to be identified over the period 2017/18 to 2018/19, in order to address the projected budget deficit over the medium term to 2018/19 (paragraph 6.6).
8. That due to the uncertainty surrounding the future of public finances in 2016/17 and beyond, and the existing assumptions concerning the successful delivery of prior year savings amounting to £46 million, the projected additional savings requirement of £46 million over the medium term could change significantly over the coming years as more information becomes available (paragraph 6.7 and 6.8).
9. That having identified significant savings over the last five financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the council has ever faced (paragraph 6.7).
10. That authority to agree a composite employer's contribution rate with the West Midlands Pension Fund was delegated to the Director of Finance (Section 151 Officer) on 4 February 2015 (paragraph 4.3.4).
11. Note that councillors must have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions (paragraph 14.8).

1.0 Purpose

- 1.1 This is the fourth and final report to Cabinet on the 2015/16 Budget and the Medium Term Financial Strategy for the period to 2018/19. The report provides Cabinet with a budget for recommendation to Full Council.

2.0 Summary

- 2.1 At its meeting on 4 February 2015, Cabinet were provided with an update on the 2015/16 Budget and Medium Term Financial Strategy for the period 2015/16 to 2018/19. At that point in time, the Council needed to identify £3.5 million of savings to balance the 2015/16 budget, rising to £40.6 million by 2018/19.
- 2.2 At that meeting, Cabinet were informed that further detailed work would continue prior to this meeting, with the aim of reducing the call on general reserves as much as possible to ensure that the Council's policy of maintaining a minimum of £10 million in general reserves is not breached.
- 2.3 This report updates the 2015/16 Budget and Medium Term Financial Strategy for the period 2015/16 to 2018/19 for changes arising from the detailed work undertaken in recent weeks. Detailed work, including the revision to the MRP Policy, as detailed in section 4.5, has resulted in the Council being able to propose a budget for 2015/16 which is balanced without calling upon general reserves.
- 2.4 A summary of the changes that have been reflected in the projections since 4 February is provided at Appendix A.
- 2.5 Recasting the projected budget challenge to include pressures that we have become aware of during the last year has resulted in the budget challenge increasing from £123 million to £134 million over the period 2014/15 to 2018/19. The increase is largely due to the rising costs of Looked After Children, pay and pension costs, and continuing Government grant cuts. However, savings totalling £87.8 million have been identified during the 2014/15 and 2015/16 budget setting processes.
- 2.6 The Council is now faced with finding further savings totalling £46.3 million over the next four years. The budget position reported to Cabinet on 4 February 2015 identified that savings totalling £40.6 million were required over the medium term period to 2018/19; the budget adjustments therefore have resulted in an additional pressure of £5.7 million over the medium term.
- 2.7 Work must start immediately to identify £20 million of additional savings to address the projected £14.8 million budget deficit for 2016/17. A savings target in excess of the projected budget deficit for 2016/17 is necessary due to the increased uncertainty of future government funding. This would give the Council choice over the implementation of those savings in the event that grant funding is in line with current projections. It is proposed that an update on progress will be reported to Cabinet in June 2015.

- 2.8 Further to this, additional savings totalling £26 million need to be identified, taking the total additional savings to be identified to £46 million, in order to address the projected budget deficit over the medium term to 2018/19.
- 2.9 It is important to note that the updated projected budget deficit assumes the achievement of prior year savings proposals amounting to £46 million over the four year period to 2018/19. Having identified significant savings over the last five financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the council has ever faced.

3.0 Background

3.1 2014/15 Budget and Medium Term Financial Strategy

- 3.1.1 The Budget and Medium Term Financial Strategy for the period 2014/15 to 2018/19 was presented to Council for approval on 5 March 2014. After taking account of savings proposals identified during the 2014/15 budget setting process, equating to £66.7 million over the 5 year period to 2018/19, a budget deficit of £11.8 million was projected for 2014/15 rising to £59.2 million by 2018/19.
- 3.1.2 Given the extremely challenging financial position the Council finds itself in, following successive cuts in government grant, a strategy to address the projected budget deficit over the medium term was approved by Council in March 2014.
- 3.1.3 The strategy focused on identifying £25 million of savings for 2015/16, with the aim to accelerate as many of those savings as possible into 2014/15, to reduce the call on general balances. At this point, an additional £35 million of savings were required as part of the medium term strategy to address the budget deficit.
- 3.1.4 During the first seven months of 2014/15 significant work was undertaken to identify new savings proposals to achieve the approved budget strategy for 2015/16. Cabinet received two reports during this period in June and October 2014. Savings proposals totalling £27 million were reported to, and approved for consultation by, Cabinet on 22 October 2014.
- 3.1.5 The Council's budget consultation took place from 27 October 2014 to 15 January 2015, in order to inform the 2015/16 budget and the Medium Term Financial Strategy. Cabinet received a report on 4 February 2015, which discussed the findings from budget consultation. The final outcome of budget consultation has been taken into account, and will be discussed in further detail at section 10.
- 3.1.6 At the meeting on the 4 February 2015, Cabinet were also provided with an update on the 2015/16 Budget and Medium Term Financial Strategy for the period 2015/16 to 2018/19 which reflected detailed budget workings that had taken place over the preceding months, in addition to the provisional local government finance settlement announced on 18 December 2014. Taking into account the budget adjustments, at that

point in time, the Council needed to identify savings totalling £3.5 million to set a balanced budget in 2015/16.

4.0 Medium Term Financial Strategy – Key Assumptions

- 4.1 As reported to Cabinet recently, due to the financial challenges facing the Council, it continues to be increasingly important to consider next year’s budget as part of a Medium Term Financial Strategy. The Medium Term Financial Strategy addresses the four year period to 2018/19, due to the continued challenges in projecting financial resources available to the Council beyond this time frame. The major budget assumptions used in the preparation of the Medium Term Financial Strategy are set out in Appendix B. Specific assumptions are set out in more detail below.
- 4.2 It is particularly challenging to project key assumptions over the medium term period, however they have been adjusted based upon the information available at present and professional judgement. It is important to note that budget assumptions remain subject to significant change, which could therefore result in alterations to the financial position facing the Council.

4.3 Pay Related Pressures

- 4.3.1 The projected increase arising from pay related pressures is detailed in Table 1 below. The table details the estimated impact of pay awards, increases in employer’s national insurance and pension contributions and other known pay related pressures.

Table 1 – Pay Related Pressures

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Pay Award	1,995	2,673	2,700	3,376
Employers Pension	2,335	6,411	10,156	(784)
National Insurance	-	672	-	-
Annual Increments	1,949	1,248	750	750
	6,279	11,004	13,606	3,342

- 4.3.2 Since the last update to Cabinet on 4 February, a detailed exercise has taken place to project the potential numbers of redundancies and associated pension fund strain costs over the medium term. As a result of this exercise, an additional £1 million budget has been incorporated into the Medium Term Financial Strategy, and is reflected in the table above. It is important to note that it is somewhat difficult to predict redundancy costs; however this will be monitored closely as part of the quarterly budget monitoring process with regular updates reported to Cabinet.
- 4.3.3 In recent weeks discussions have taken place between the Director of Finance and the Strategic Director - Pensions regarding the payment of the future services element of the employer’s contributions to the fund on 1 April 2015, rather than monthly instalments

throughout 2015/16. It is projected that this would result in an in year net saving of £400,000. It is therefore proposed that this approach is adopted.

- 4.3.4 On 4 February 2015, Cabinet approved delegated authority to the Director of Finance (Section 151 Officer) to agree the 2015/16 composite rate for employer's contributions with West Midlands Pension Fund. Discussions are on-going.

4.4 Budget Pressures and Developments

- 4.4.1 Table 2 below details budget growth that has been incorporated into the Medium Term Financial Strategy.

Table 2 – Summary of Budget Pressures and Developments

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Inflationary Pressures	1,949	2,616	3,119	2,923
Demographic & Demand Pressures	8,950	2,170	2,170	2,170
Developments	50	743	-	-
	10,949	5,529	5,289	5,093

- 4.4.2 Since the last update to Cabinet on 4 February 2015, there have been no further calls upon the inflationary budget contingency provided for in 2015/16. Therefore, the remaining inflationary contingency of £498,000 has been removed from the 2015/16 budget.
- 4.4.3 Furthermore, it was reported in the last budget update to Cabinet that the Council was continuing to undertake detailed analysis in order to identify and predict the likely number of Looked After Children in future years. As a result of this exercise, additional demographic and demand pressures totalling £5.7 million have been incorporated into the 2015/16 budget: £4.5 million due to the increase in Looked After Children numbers during the year with a further £1.2 million for Children's Social Workers being incorporated into the base budget consistent with the decisions of Cabinet (Resources) Panel in September 2013 and January 2015. In addition to this, it is important to note that that this exercise identified that whilst the approved £6 million saving in this area will be achievable over the medium term, it will take time. A re-profile of the Looked After Children saving is detailed in paragraph 5.2.

4.5 Treasury Management and Minimum Revenue Provision

- 4.5.1 On 4 February 2015, Cabinet were informed that further detailed work would take place prior to this budget update, with the aim of reducing the call on general reserves as much as possible. This detailed work included revisiting the approach to the provision for the redemption of debt, also referred to as Minimum Revenue Provision (MRP).

- 4.5.2 Councils are required to make prudent provision through the revenue account for the repayment of long-term external borrowing and credit arrangements. The straight line method of calculating MRP was adopted by the Council from 1 April 2008, however with the agreement of our External Auditors and the approval of Full Council on 17 December 2014, the approach to calculating MRP was adjusted to an annuity basis from 1 April 2014.
- 4.5.3 This revision to the MRP Policy is deemed to be both more prudent and fairer than the previous method, as the annuity method better reflects the flow of benefits from assets, as benefits generally increase in later years and also better reflects the time value of money.
- 4.5.4 Since making this revision, detailed workings have been undertaken to establish how much MRP the Council would have charged to the revenue account had it have adopted the annuity basis from 1 April 2008. This detailed exercise has established that the Council would have charged around £37 million less MRP between 1 April 2008 and 31 March 2014, had it adopted the annuity method during this period.
- 4.5.5 The Director of Finance (Section 151 Officer) considers that the Council has been overly prudent in setting MRP during the period from 1 April 2008 to 31 March 2014. The Treasury Management Strategy 2015/16 report presented to Cabinet at this meeting proposes that Cabinet recommends approval of a revised MRP Policy that incorporates this adjustment, would therefore result in a balanced budget for 2015/16 as detailed in paragraph 6.2 and Table 6.
- 4.5.6 Legal advice has been sought from Leading Counsel whose view was “it seems to me that the proposal here is a permissible, reasonable and lawful exercise”. The Council’s external auditor has referred the change in policy to the Audit Commission’s Technical Team for an opinion and at the time of writing this report a response is awaited.
- 4.5.7 In addition to the detailed workings surrounding the MRP Policy, a detailed review of the capital programme and associated treasury management costs has also taken place, since reporting to Cabinet on 4 February 2015. The treasury management budget has been adjusted to reflect capital project re-profiling from 2014/15 to later years, as reported to Cabinet at this meeting.

4.6 Council Tax

- 4.6.1 The Council Tax Base and NNDR (Business Rates) Net Rate Yield 2015/16 report was presented to Cabinet on 14 January 2015. Cabinet approved that the Council Tax Base for 2015/16 is to be set at 59,103.95 Band D equivalents with a 1.99% increase in Council Tax. Therefore Council Tax for a Band D property in 2015/16 will be £1,369.64 for council services.
- 4.6.2 It is projected that income from council tax will rise in subsequent years, based upon the latest collection rates and tax base. Projections assume that Council Tax will continue to

increase by 1.99% in future years, whilst the tax base is anticipated to rise by 0.5% each year.

4.7 Localised Business Rates

- 4.7.1 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Department for Communities and Local Government (DCLG) by the deadline of 31 January 2015. As a result of updated information available to the Council, the final business rates yield for 2015/16 was 0.5% (£188,000) greater than originally anticipated, as reported to Cabinet on 4 February 2015.
- 4.7.2 There are a number of Business Rates policies that the Government have stipulated for which the Council is reimbursed through section 31 of the Local Government Act 2003. These include a cap of 2% on the small business multiplier and the cost of temporary doubling of Small Business Rate Relief.
- 4.7.3 New grant income totalling £2.7 million is anticipated for the current financial year, whilst grant income totalling £2.2 million is projected for 2015/16.

4.8 Revenue Support Grant

- 4.8.1 The announcement of the Final Local Government Finance Settlement on 3 February 2015 resulted in an increase of £594,000 to the anticipated Revenue Support Grant receivable for 2015/16, as announced in the Provisional Local Government Finance Settlement on 18 December 2014, and reported to Cabinet on 14 January 2015. However, for the reasons set out in 4.9 below this additional initial allocation cannot be presumed to be overall extra resource for the Council.
- 4.8.2 A statement issued by Kris Hopkins MP, the Parliamentary Under Secretary of State for Communities and Local Government, confirmed that views of all those who had commented on the provisional settlement for 2015/16 had been considered and that “a further £74 million had been provided to upper-tier authorities to recognise that councils have asked for additional support”.
- 4.8.3 With the absence of further information from the Government regarding the Council’s Revenue Support Grant funding for future years, and the particularly challenging environment in which we find ourselves, it is difficult to project government funding. These projections over the medium term therefore remain subject to potentially significant changes until the actual level of grant is notified by the Government in December each year.

4.9 New Homes Bonus

- 4.9.1 Following the announcement of the Final Local Government Finance Settlement including the allocation of an additional £74 million to upper-tier authorities, as discussed in paragraph 4.8.2, the projected New Homes Bonus Adjustment Grant has been revised downwards in the MTFS.

4.9.2 The grant is derived from funding that has been set aside within the Local Government Finance Settlement for New Homes Bonus, but not actually used for this purpose. The Government made a commitment to return any monies not used to fund New Homes Bonus to local authorities pro rata to their start-up funding allocation.

4.9.3 Given the allocation of a further £74 million to upper-tier authorities as part of the Revenue Support Grant, it is deemed that less funding is likely to be available as returned funding under the New Homes Bonus Adjustment Grant. Therefore in order to be prudent the grant income assumed in the MTFS has been revised downwards.

4.10 Specific Grants

4.10.1 Specific grants for each year have been reviewed and adjustments have been built into the Medium Term Financial Strategy. Further details regarding individual specific grants can be found on the Council website by viewing www.wolverhampton.gov.uk/budgetsavings.

5.0 Savings Proposals

5.1 New savings proposals totalling £27.0 million were reported to Cabinet on 22 October 2014, as detailed in the table below.

Table 3 - Savings Proposals identified during the 2015/16 Budget Process

	2014/15	2015/16	Later Years*	Total
	£000	£000	£000	£000
Savings proposals reported October 2014	1,885	25,169	(64)	26,990

* figures reported in brackets represent a reduction to previously approved savings proposals in later years due to these being accelerated and implemented in earlier years.

5.2 It was reported to Cabinet on 4 February that detailed analysis was being undertaken to identify and predict the likely number of Looked After Children in future years. As a result of this work it is recognised that whilst the numbers of Looked After Children have started to reduce since December 2014, and the approved £6 million saving in this area will be achievable over the medium term, it will take time. As a result of this, in addition to the growth in the budget as detailed in paragraph 4.4.3, it is proposed that the Looked After Children saving is re-profiled from £5 million in 2015/16 with a further £1 million in 2016/17 to £3 million in 2015/16, with an additional £1 million in each year thereafter to 2018/19. The total saving therefore remains at £6 million over the medium term period, however the saving in 2015/16 is £2 million lower than originally proposed. A summary of the total adjustment to the Children and Families budget is detailed in table 4 below.

Table 4 – Children and Families Budget Adjustment

	2015/16	2016/17	2017/18	2018/19	Total
	£000	£000	£000	£000	£000
Growth (paragraph 4.4.3)					
Looked After Children	4,500	-	-	-	4,500
Additional Children's Social Workers	1,200	-	-	-	1,200
Children and Families Savings re-profile	2,000	-	(1,000)	(1,000)	-
Total Budget Adjustment	7,700	-	(1,000)	(1,000)	5,700

- 5.3 The Council prioritises caring for the elderly and vulnerable adults and recognises that greater investment in this area is required. As a result, it is proposed that there is a downwards revision to the 'Efficiency Savings in staff from the implementation of the Care Act' saving from £1 million in 2015/16 to £200,000, therefore reflecting an overall reduction in the proposed saving.
- 5.4 When asked to detail the services that should remain totally protected from proposed savings, respondents "to the Council's budget consultation" stated that 'protecting children from harm' (79.2%) and 'caring for and protecting from harm the elderly and vulnerable adults' (77.2%) were of highest priority. These responses are consistent with the Council's proposed adjustments as detailed in paragraphs 5.2 and 5.3.
- 5.5 It is important to note that this revision to the Looked After Children savings proposal, still leaves the Children & Young people service with an ambitious savings target of £6.0 million. Furthermore, savings proposals within the Adults area are being closely monitored as they are also very challenging.
- 5.6 The revised savings proposals identified as part of the 2015/16 budget setting process, are detailed in the table below:

Table 5 – Revised Savings Proposals identified during the 2015/16 Budget Process

	2014/15	2015/16	Later Years	Total
	£000	£000	£000	£000
Amended Savings proposals	1,885	22,369	1,936	26,190

- 5.7 In addition to amendments to savings proposals identified as part of the 2015/16 budget setting process, amendments to prior year savings proposals are detailed in the following paragraphs.
- 5.8 Following monitoring of savings proposals within the Adults area, a revision to the Ekta Day Centre saving, identified as part of the 2014/15 budget setting process, is proposed, by re-profiling £100,000 of the saving from 2015/16 to 2016/17. This re-profiling will provide sufficient time to implement the changes.

- 5.9 Education continues to be a priority of the Council and therefore work has been undertaken to ensure that there is adequate budget provision in this area. As a result it is proposed that £1 million Education saving for 2016/17 is re-profiled to £250,000 in 2016/17, with a further £250,000 in 2017/18 and a further £500,000 in 2018/19.
- 5.10 The revision to savings proposals detailed above has been reflected in section 6 below and will increase the budget deficit over the period of the Medium Term Financial Strategy.

6.0 Updated Budget and Medium Term Financial Strategy

- 6.1 The table below details projections for the period to 2018/19; incorporating extensive budget preparation work that has been on-going in recent months for the 2015/16 budget, in addition to those adjustments arising as a result of changes in assumptions, as detailed in sections 4 and 5 above.
- 6.2 The Council is now faced with finding further savings totalling £46.3 million over the next four years. The Council's proposed budget for 2015/16, unlike the 2014/15 budget, does not require the budgeted use of general reserves in order to balance the budget. The budget position reported to Cabinet on 4 February 2015 identified that savings totalling £40.6 million were required over the medium term period to 2018/19; the budget adjustments therefore have resulted in an additional pressure of £5.7 million over the medium term.
- 6.3 On 4 February 2015, Cabinet were informed that further detailed work would take place with the aim of reducing the call on general reserves as much as possible. That detailed work, including the revision to the MRP Policy, as detailed in section 4.5, has resulted in the Council being able to propose a budget for 2015/16 which is balanced without calling upon general reserves.
- 6.4 The net budget requirement for 2015/16 for General Fund Services is £224.9 million. In the opinion of the Director of Finance (Section 151 Officer); the 2015/16 budget estimates are robust.
- 6.5 However, work must start immediately to identify £20 million of additional savings to address the projected £14.8 million budget deficit for 2016/17. A savings target in excess of the projected budget deficit for 2016/17 is necessary due to the increased uncertainty of future government funding. This would give the Council choice over the implementation of those savings in the event that grant funding is in line with current projections. It is proposed that an update on progress will be reported to Cabinet in June 2015.
- 6.6 Further to this, additional savings totalling £26.0 million need to be identified, taking the total additional savings to be identified to £46.0 million, in order to address the projected budget deficit over the medium term to 2018/19.

- 6.7 It is important to note that the updated projected budget deficit assumes the achievement of prior year savings proposals amounting to £46.0 million over the four year period to 2018/19. Having identified savings in excess of £160.0 million over the last five financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the council has ever faced.
- 6.8 Due to the extreme uncertainty facing the Council and the potentially significant impact that this has on the accuracy of financial projections, the period of the medium term financial strategy will continue to extend to 2018/19 only, for the foreseeable future.
- 6.9 Appendix A analyses the changes that have taken place since 4 February 2015, whilst the Council's proposed budget for 2015/16 and the medium term forecast is shown at Table 6 below.
- 6.10 An updated version of the Financial Plan is being produced to explain the extent of the financial challenge that is still faced by the Council to stakeholders. It is anticipated that the Financial Plan will be published on 1 April 2015. This document aims to inform stakeholders, in addition to supporting the 2016/17 budget consultation process. It is proposed that Cabinet recommend that Council approve delegation of authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to approve this document.

Table 6 - Medium Term Financial Strategy 2015/16 to 2018/19

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Previous Years Net Budget Brought Forward	247,550	224,875	230,108	240,610
Increasing/ (Decreasing) Cost Pressures				
- Pay Related Pressures	6,279	11,004	13,606	3,342
- Treasury Management	(1,977)	2,266	718	11,508
- Budget Growth	10,988	5,529	5,289	5,093
- Full year effect of prior years savings	(17,817)	(9,107)	(9,378)	(9,711)
- Net impact of change in specific grants	1,771	257	252	248
- Savings Proposals - 2015/16 budget process	(21,919)	(4,716)	15	(235)
	(22,675)	5,233	10,502	10,245
Net Budget (Before Use of Resources)	224,875	230,108	240,610	250,855
Projected Corporate Resources				
Council Tax	(80,951)	(83,081)	(85,158)	(87,287)
Revenue Support Grant	(63,261)	(52,554)	(42,336)	(31,810)
Enterprise Zone Business Rates	(989)	(1,532)	(2,394)	(2,800)
Collection Fund (Surplus)/Deficit	(1,041)	720	-	-
Top Up Grant	(35,899)	(36,739)	(37,599)	(38,479)
Localised Business Rates	(37,307)	(38,165)	(39,043)	(39,941)
New Homes Bonus	(3,202)	(3,957)	(4,267)	(4,254)
New Homes Bonus Adjustment Grant	-	-	-	-
New Grant - Business Rates support	(2,225)	-	-	-
	(224,875)	(215,308)	(210,797)	(204,572)
Projected Annual Change in Budget Deficit/(Surplus)	-	14,800	15,013	16,471
Projected Cumulative Budget Deficit	-	14,800	29,813	46,284

- 6.11 On 8 January 2014, Cabinet received a report detailing the projected budget challenge facing the Council over the period 2014/15 to 2018/19, which stood at £123 million. It is important to note that this did not include savings proposals which had been identified, but were subject to budget consultation, at that point in time. Whilst we have identified significant savings in recent months and therefore reduced the remaining budget challenge to £46 million over the period to 2018/19, in accordance with best financial practice and endorsed by Eugene Sullivan, former Chief Executive of the Audit Commission, in order to be transparent we have recast the projected budget challenge taking into account the latest identified budget pressures.
- 6.12 Recasting the projected budget challenge to include pressures that we have become aware of during the last year has resulted in the budget challenge increasing from £123 million to £134 million. The increase in the budget challenge is detailed in the following table:

Table 7 – Tracking the Budget Challenge

	£000
Projected Budget Challenge – January 2014	123,020
Pay and Pension Related Pressures	4,534
Treasury Management	(1,269)
Budget Growth - Children and Families	8,200
Budget Growth - Other	1,403
Net reduction in Specific Grants	2,071
Increase in Corporate Resources	(3,862)
Recalculated Budget Challenge – February 2015	134,097
Net total of savings	(87,813)
Projected Remaining Budget Challenge – February 2015	46,284

- 6.13 It is important to note however that savings totalling £87.8 million have been identified during the 2014/15 and 2015/16 budget setting processes, therefore the remaining projected budget challenge stands at £46.3 million.

7.0 General Fund Reserves

7.1 General Balances

7.1.1 The following table sets out the projected level of general balances at 31 March 2015:

Table 8 – Projected General Balances at 31 March 2015

	£000
Balance as at 1 April 2014	(27,000)
Budgeted Use of General Balances	9,942
Revised MRP Policy – Approved Change to Annuity Basis	(4,400)
Revised MRP Policy – Extension of Change to Annuity Basis (approval awaited)	(7,352)
Projected Overspend	5,000
Transfer to the Efficiency Reserve (to fund redundancy costs)	6,000
New Grant relating to Business Rates support	(2,679)
Projected Balance as at 31 March 2015	(20,489)

- 7.1.2 As can be seen from the table above, it is projected that redundancy costs in the region of £6 million will be incurred during 2014/15; this has been revised downwards from a previously assumed £7.5 million. It is worth noting that the redundancy costs for 2014/15 are an estimate, and are subject to change dependent upon the number and nature of applications; however an update on redundancies is provided in section 8 below.
- 7.1.3 As a result of revising the MRP Policy, as discussed in more detail in section 4.5, there will be a zero MRP charge in 2014/15. This will result in a saving against the MRP budget which will be allocated to general reserves as can be seen in the table above.
- 7.1.4 Table 9 below sets out the general balance projections over the medium term and the additional savings now required to maintain the minimum level of £10 million required within the Reserves Policy.

Table 9 – Projected uncommitted General Fund Reserves

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Balance brought forward	(27,000)	(20,489)	(10,000)	4,800	34,613
Revised Projected budget deficit	9,942	-	14,800	29,813	46,284
Revised MRP Policy – Approved Change to Annuity Basis	(4,400)	-	-	-	-
Revised MRP Policy – Extension of Change to Annuity Basis (approval awaited)	(7,352)	-	-	-	-
Projected Overspend	5,000	-	-	-	-
Estimated transfer to the Efficiency Reserve (to fund redundancy costs)	6,000	5,000	-	-	-
New Grant relating to Business Rates support	(2,679)	-	-	-	-
Transfer balance above £10m to specific reserves (for future invest to save and redundancy costs)	-	5,489	-	-	-
Balance carried forward	(20,489)	(10,000)	4,800	34,613	80,897
Shortfall against £10 million minimum	-	-	14,800	44,613	90,897

7.1.5 As can be seen from the table above, the balance in excess of £10 million at 31 March 2016 will be prudently transferred into specific reserves for future invest to save and redundancy costs. The general reserves will therefore be £10 million on 1 April 2016, with emphasis on identifying budget savings to meet the projected budget deficit over the medium term ensuring that the Council's policy to maintain a minimum of £10 million in general reserves is not breached.

7.2 Specific Reserves

7.2.1 Specific reserves represent monies set aside by the Council to fund future expenditure plans. As part of the 2015/16 budget setting process, specific reserves were reviewed for their appropriateness and adequacy by the Specific Reserves Working Group on 27 November 2014. The Group determined that all specific reserves were appropriate and adequate for purpose.

7.2.2 In the opinion of the Director of Finance (Section 151 Officer), the proposed levels of reserves, provisions and balances is adequate in respect of the forthcoming financial year.

8.0 Redundancy Update

8.1 The Council continues to make progress with the voluntary redundancy (VR) exercise, having sought volunteers for redundancy/early retirement since late 2013. It is still anticipated that reductions of up to 2,000 full time equivalent staff will be required over the medium term period to 2018/19. The Council continues to work towards this, with 728 people having had their application for VR accepted since May 2013.

8.2 Based upon the number of approved redundancies to date, in addition to the projected reduction in full time equivalent staff arising from savings proposals identified during the 2014/15 and 2015/16 budget setting processes, it is anticipated that redundancy costs are likely to be in the region of £6 million in 2014/15, and £5 million in 2015/16. It is worth highlighting that the redundancy costs are an estimate, and are subject to change dependent upon the number and nature of applications.

8.3 Whilst it is the council's policy to avoid making compulsory redundancies wherever it can, it is unrealistic to assume that these can be avoided altogether. Given the need to identify further savings totalling £46 million over the medium term period to 2018/19, it is likely that there will be further significant redundancy costs to fund in future years.

9.0 Budget Risk Management

9.1 The following table provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology.

Table 10 - General Fund Budget Risks 2015/16 – 2018/19

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of the impact of non-pay inflation and pay awards, staff vacancy factors, VAT rules, loss of ICTS facilities, treasury management activity and the impact of Equal Pay and budget management failure.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering savings and downsizing the workforce.	Red
Income and Funding	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.	Red
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 personal taxation rules and, in particular, from the Care Bill	Red

9.2 The overall risk associated with the 2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19 continues to be assessed as Red.

10.0 Budget Consultation

10.1 The results of budget consultation were reported to Cabinet on 4 February 2015 which agreed the initial response of Cabinet to the budget consultation. This report provides the final response of Cabinet to the budget consultation.

10.2 The Cabinet would like to thank all participants in the consultation process and to pay tribute to the serious and constructive approach adopted. Furthermore, the Cabinet would also like to thank those participants who stated that they would be prepared to assist the Council by volunteering within their communities or by offering to work with the Council to find alternative ways of saving money to prevent service cuts.

- 10.3 Respondents to the budget consultation stated that the top three services out of the thirteen service areas that should remain **totally protected** from the proposed savings round were:
- Protecting children from harm (79.20%)
 - Caring for and protecting from harm the elderly and vulnerable adults (77.20%)
 - Ensuring there are enough school places for the city's children (66.15%).
- 10.4 Further to this, the top three services respondents stated should have **some protection** from the proposed savings round were:
- Keeping streets and open spaces clean (58.57%)
 - Library Services (55.57%)
 - Leisure Centres (54.09%).
- 10.5 Finally, the top three services respondents stated should have **no protection** from the proposed savings round were:
- Neighbourhood Services (i.e. Neighbourhood Wardens) (29.95%)
 - Cultural Services (i.e. Art Galleries, Bantock House) (27.18%)
 - Leisure Centres (25.91%).
- 10.6 Protecting children from harm – Ensuring the safeguarding of children is of utmost importance to the Cabinet. It is clear that the responses to the budget consultation are consistent with the work the Council is undertaking to protect children from harm. Cabinet proposes to provide additional demographic and demand budget of £5.7 million in the 2015/16 budget: £4.5 million attributable to the increase in Looked After Children numbers with a further £1.2 million for Children's Social Workers. Further to this, Cabinet recognise that whilst the numbers of Looked After Children have started to reduce since December 2014, and the approved £6 million saving in this area will be achievable over the medium term, it will take time. As a result of this, Cabinet proposes to re-profile the Looked After Children saving over the medium term period to 2018/19 as discussed in paragraph 5.2.
- 10.7 Caring for and protecting from harm the elderly and vulnerable adults – The Cabinet fully support that caring for and protecting from harm the elderly and vulnerable adults is a significant priority for the Council, and it is clear that the responses to the budget consultation are consistent with this also. Cabinet proposes to reduce the Care Act saving as a result, as detailed in paragraph 5.3, focusing on greater investment in this area.
- 10.8 Neighbourhood Services – Following the presentation of a petition to Council in November 2014 regarding the neighbourhood wardens saving, a focus group was established at the petitioners request to consider alternative options to the removal of the service. The focus group identified a preferred option of maintaining ten wardens, funded by the Council for a period of three years, to operate within the crime and community safety priority areas of the City. This would still require investment of approximately £260,000 per annum for this three year period after which the model would be community led and Council funds would be removed. The Cabinet notes that with

continued reducing Council resources it is not possible to continue to fund the Neighbourhood Wardens service even at this much reduced level. However Cabinet note that it is important to work in close partnership with the police, who will be increasing the number of Police and Community Support Officers (PCSO) in Wolverhampton.

- 10.9 The Cabinet wishes that Cultural Services, including the Art Gallery and Bantock House, and Leisure Centres become commercially viable under new business models designed to maximise revenue income and reduce the Council's subsidy. Where appropriate we will work with partner organisations to achieve this.

11.0 Budget Scrutiny

- 11.1 During November and the start of December 2014, each Scrutiny Panel reviewed and scrutinised the relevant savings proposals. All of these views and observations were then reported to Scrutiny Board on 9 December 2014. Scrutiny Board resolved that the combined comments would be reported to Cabinet.
- 11.2 This report provides the final response of Cabinet to the budget scrutiny.
- 11.3 The Cabinet would like to thank the Scrutiny Board and Scrutiny Panels for their detailed review of individual savings proposals, and note that the final budget recommendations in this report take into account Cabinet's consideration of the outcome of budget scrutiny.

12.0 Financial implications

- 12.1 The financial implications are discussed within the body of the report.
[MH/16022015/T]

13.0 Legal implications

- 13.1 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.
- 13.2 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.
- 13.3 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.

- 13.4 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).
- 13.5 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.
- 13.6 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.
- 13.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2015/16.
[KO/16022015/C]

14.0 Equalities implications

- 14.1 Under the Equality Act 2010, the council has a statutory duty to pay due regard to the impact of how it carries out its business on different groups of people. This is designed to help the council identify the particular needs of different groups and reduce the likelihood of discrimination, the nine equality strands covered in the legislation are:
- Age;
 - Disability;
 - Gender reassignment;
 - Marriage and Civil Partnership (this strand only applies to employment and not to service delivery);
 - Pregnancy and Maternity;
 - Race;
 - Religion or Belief;
 - Sex, and
 - Sexual Orientation.

The strands include everyone.

- 14.2 In relation to determining the overall revenue budget for the council there is always a difficult balance to be struck in deciding the levels at which to invest, reduce expenditure and raise income set against the often competing needs of different groups within the Wolverhampton community.
- 14.3 In order to address these complex issues the council operates an open and consultative approach to budget and council tax determination. Year-on-year and medium term spending forecasts are provided to every household and business ratepayer within the city as part of the documentation which accompanies the council tax demand.
- 14.4 Budget consultation meetings have been held with the education community, the business community, the voluntary sector, communities of interest and trade unions. The council's budget consultation approach has also included an online survey in order to gain feedback on budget and service priorities.
- 14.5 In determining the budget for 2015/16 considerable focus has been placed on the development of savings proposals. All of these proposals have been subject to an equality analysis screening and where necessary a full equality analysis has been conducted.
- 14.6 The Council is facing a particularly challenging short and medium term financial environment in which savings must be generated and a tight control on spending maintained. This means that a greater focus than ever is necessary to ensure that core equalities commitments are met. In determining the 2015/16 budget particular attention has been given to attempts to lessen any adverse impact of proposals on individuals and communities in most need.
- 14.7 In summary the council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives. A cumulative equalities analysis has been conducted on the overall budget proposals, including the overall impact of job losses. This can be found on the Council's website via the following link: <http://www.wolverhampton.gov.uk/budgetsavings>
- 14.8 Councillors should also be aware that under the Equality Act 2010, they must comply with the Public Sector Equality Duty (PSED) when making budget decisions. What this means in practice is that Councillors must consciously think about the three aims of the public sector equality duty as part of the decision making process, the three aims are to have due regard to the need to:
- Eliminate discrimination, harassment and victimisation;
 - Advance equality of opportunity by removing or minimising disadvantages, meet differing needs and encouraging participation, and
 - Foster good relations between people from different groups.

14.9 The Act does not require the council to treat everyone in the same way; sometimes different treatment is required, for example, be making reasonable adjustments to meet the needs of disabled people.

14.10 Consideration of equality issues must influence the decisions reached by public bodies including:

- How they act as employers;
- How they develop, evaluate and review policy;
- How they design, deliver and evaluate services, and
- How they commission and procure from others.

14.11 The Brown Principles, established as a result of a legal case concerning Post Offices closures in 2008, provide an important checklist that should be considered when making decisions:

- Decision makers must be made aware of their duty to have due regard to the identified goals;
- Due regard must be fulfilled before and at the time that a particular decision is being considered, not afterwards;
- The duty must be exercised in substance, with rigour and with an open mind. It is not a question of ticking boxes;
- The duty is cannot be delegated; it must be fulfilled by the organisation in question rather than through the use of an external body to do it to the organisation;
- The duty is a continuing one, and
- It is good practice to keep an adequate record showing that it has considered the identified needs.

15.0 Human resources implications

15.1 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 2016 through both voluntary redundancy and savings proposals which will result in compulsory redundancies.

15.2 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. Given the volume and range of savings being proposed, there will be reductions in services and employee numbers which will require fair and due process to be followed regarding consultation, selection and implementation of any compulsory redundancies. The accelerated timetable for achieving savings in the light of the financial settlement is likely to require the Council as an employer to utilise the statutory 45 day and 30 day consultation periods for some service reductions, rather than the best practice position of allowing, where possible, 90 days.

- 15.3 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. Proposals to move service delivery from direct Council management to private, community or third sector providers may have implications under the TUPE regulations.
- 15.4 There is on-going consultation with the trade unions on the impact Council's budgetary position and the proposals being made to meet the challenges posed by it.

16.0 Schedule of background papers

Capital Programme 2014/15 to 2018/19 quarter three review and 2015/16 to 2019/20 budget strategy, report to Cabinet, 25 February 2015.

Treasury Management Strategy 2015/16, report to Cabinet, 25 February 2015.

2015/16 Budget and Medium Term Financial Strategy 2015/16 – 2018/19, report to Cabinet, 4 February 2015.

Budget 2015/16 – outcome of consultation, report to Cabinet, 4 February 2015.

Investing To Save: Improving The Quality Of Early Intervention By Social Workers By The Reduction Of Caseloads, report to Cabinet (Resources) Panel, 20 January 2015.

Budget and Medium Term Financial Strategy 2015/16 – 2018/19 - Provisional Local Government Finance Settlement Update, report to Cabinet, 14 January 2015.

Council Tax Base and NNDR (Business Rates) Net Rate Yield 2015/16, report to Cabinet, 14 January 2015.

Treasury Management Activity Monitoring – Mid Year Review, report to Full Council, 17 December 2014.

5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19, report to Cabinet, 8 January 2014.

Investing To Save: Improving the Quality of Early Intervention by Social Workers by the Reduction of Caseloads, report to the Cabinet (Resources) Panel, September 2013.

APPENDIX A

Medium Term Financial Strategy: Analysis of Changes since 4 February 2015

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Projected Budget Challenge - 4 February 2015	3,470	15,556	32,351	40,621
Changes to Budget Pressures				
Looked After Children increase in numbers	4,500	-	-	-
Additional Children's Social Workers - as previously approved	1,200	-	-	-
Projected Additional Pensions Deficit Recovery and Strain	-	1,000	-	-
Saving from on account Pension Payment less Treasury Management Costs	(400)	400	-	-
Impact of slippage in the Capital Programme against Treasury Management Budget	(1,000)	1,000	-	-
Minimum Revenue Provision - net saving 2014/15 - 2018/19	(7,858)	(2,123)	(885)	9,716
	(3,558)	277	(885)	9,716
Changes to Inflationary Pressures				
Removal of remaining Inflation contingency	(498)	-	-	-
	(498)	-	-	-
Changes to savings projections				
Reprofiling of Children and Families savings	2,000	-	(1,000)	(1,000)
Reduction of Care Act saving	800	-	-	-
Reprofile Ekta Day Centre reprovion saving	100	(100)	-	-
Reprofile Education savings	-	750	(250)	(500)
	2,900	650	(1,250)	(1,500)
Changes to Specific Grants:				
Housing Benefit and Council Tax Admin Grant - further reduction	197	(10)	(9)	98
	197	(10)	(9)	98
Changes to Corporate Resources projections				
Impact of Final Settlement - Revenue Support Grant	(594)	-	-	-
Projected Impact of Final Settlement - New Homes Bonus Adjustment Grant	496	(424)	367	(108)
Final Business Rates net yield	(188)	(4)	(5)	(5)
New grant relating to Business Rates support (assumption that this funding ceases in 2015/16 - further information being sought)	(2,225)	2,225	-	-
	(2,511)	1,797	362	(113)
Total Changes since 4 February 2015	(3,470)	2,714	(1,782)	8,201
Add: Cumulative Budget Adjustments	-	(3,470)	(756)	(2,538)
Projected Budget Challenge - 25 February 2015	-	14,800	29,813	46,284

Budget Preparation Parameters

The following key parameters have been reflected in the budget and medium term projections.

	2015/16 Forecast Budget	2016/17 Forecast Budget	2017/18 Forecast Budget	2018/19 Forecast Budget
Council Tax Annual Increase (Council element)	1.99%	1.99%	1.99%	1.99%
Growth in Council Tax Base	0.5%	0.5%	0.5%	0.5%
Pay Awards	1.5%	2.0%	2.0%	2.5%
Price Inflation (excl. Gas, Electricity and NNDR)	0.0%	0.0%	0.0%	0.0%
Price Inflation (Gas)	5.1%	5.1%	5.1%	5.1%
Price Inflation (Electricity)	6.0%	6.0%	6.0%	6.0%
Price Inflation (NNDR)	2.3%	2.3%	2.3%	2.3%
Borrowing Interest Rate (PWLB 25 year rate)	4.8%	4.8%	4.9%	5.0%
Return on Investments	0.3%	0.3%	0.3%	0.3%
NNDR Income Annual Increase	2.3%	2.3%	2.3%	2.3%
Growth in NNDR Tax Base	0.0%	0.0%	0.0%	0.0%
Increase/(Decrease) in Top-Up Grant	1.9%	2.3%	2.3%	2.3%
Increase/(Decrease) in Revenue Support Grant	(27.2)%	(16.9)%	(19.4)%	(24.9)%