

## APPENDIX 1

### Medium Term Financial Strategy 2022-2023 to 2025-2026 – Update on Key Assumptions

#### 1.0 Introduction

- 1.1 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy (MTFS) remain under constant review and update. The body of the report highlights the main assumptions that underpin the MTFS. The following paragraphs provide further detail of updated assumptions in a number of areas.

#### Budget Growth and Pressures/Changes to Growth and Inflation

##### Pay Related Pressures

- 1.2 Detailed work has been undertaken to assess the likely impact of increments, proposed levels of pay award, increases in employer's National Insurance contributions, employer's pension contributions and auto-enrolment. The projected budget adjustments arising from the combined pay related pressures is detailed in Table 1, with further analysis provided in the paragraphs below and in paragraphs 7.7 to 7.9 of the report.

**Table 1 – Pay Related Pressures**

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Pay Award, Employers Pension, National Insurance and Annual Increments	6,050	5,226	5,405	5,585

##### Pay Award

- 1.3 At the time of writing this report national negotiations are still ongoing in respect of the pay award for 2021-2022. The 2021-2022 budget includes provision within employee budgets for a 1% pay award. However, it is anticipated that there is some provision within corporate budgets to accommodate an increase of up to 2% without having to find offsetting budget reductions in year. Any increase above 2% would require in year efficiencies to be made in both 2021-2022 and 2022-2023 and increase the budget deficit for future years. In the event that the pay award is above 2% and in year efficiencies cannot be identified in 2022-2023, the budget contingency reserve will be called upon to fund the shortfall.
- 1.4 The 2022-2023 Budget and MTFS currently assumes a pay award of 2% per year over the medium term until 2025-2026.

##### Employers National Insurance Contributions

- 1.5 As reported to Cabinet in October 2021, on 7 September 2021, Government published 'Building Back Better: Our Plan for Health and Social Care'. The Government have

announced they will levy in additional funding of around £12 billion per year from an increase of 1.25% on both employers and employees national insurance contributions. As detailed in paragraph 6.4 of the main report, the Government have announced a new one-off Services Grant which is in part to fund the increase in employers national insurance contributions. The estimated cost of this increase is in the region of £1 million per year.

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

- 1.6 In 2019-2020, the Council in the context of its role as a participating employer within the West Midlands Pension Fund (the Fund), was subject to a triennial actuarial review which set the employer pension contribution requirements over the period from 2020-2021 to 2022-2023. Following confirmation of payment arrangements with the Fund in February 2020, it is intended that the Council will make an annual payment in April of each year for the future services contributions in order to reduce the total costs and secure budget reductions. This is reflected in the budget forecasts in this report.
- 1.7 The next triennial actuarial review will be undertaken during 2022-2023, therefore the pension costs for 2023-2024 onwards will be subject to the outcome of this review.
- 1.8 In accordance with delegated authority, the Portfolio Holder for Resources in consultation with the Director of Finance will continue to consider further opportunities to accelerate contribution payments to secure additional budget reductions.

### **Other Pay Costs**

- 1.9 Further to this, detailed work has been undertaken to assess the likely impact of Auto Enrolment, employer's National Insurance contributions and incremental increases.

### **Budget Pressures**

- 1.10 Table 2 below details budget growth that has been incorporated into the MTFS.

**Table 2 – Budget Pressures**

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Inflationary Pressures, Demographic and Demand Pressures	10,130	3,953	6,766	5,038

- 1.11 Inflationary pressures include, but not limited to: utilities, the impact of changes to demographic growth, increases in relation to external contracts and investment in Council priorities.
- 1.12 In paragraphs 7.11 to 7.16 of the main report, a number of key budget pressures in Adult Services, impact of loss of income due to covid, growth for Council priorities and the impact on inflationary pressures are discussed in more detail.
- 1.13 The Budget and MTFS reported to Cabinet in February 2021, approved growth and inflation totalling £716,000 for 2022-2023 and £4.9 million for 2023-2024. Work has been

ongoing to identify growth and inflation across the Council, including the impact of rolling forward the MTFS to 2025-2026.

- 1.14 A full list of all budget growth and emerging budget pressures that have been reflected in the draft budget and MTFS, and in order to be prudent, is provided in the table below:

**Table 3 – Budget Pressures**

	2022-2023	2023-2024	2024-2025	2025-2026
	£000	£000	£000	£000
Adult Social Care pressures	9,150	4,705	4,766	3,538
Children and Young People in Care	100	-	-	-
#Yes	50	-	-	-
City Environment – waste inflation	142	142	142	142
City Environment – Coroners	137	-	-	-
Public Health and Wellbeing – PFI contract	90	90	90	90
Regeneration – City Investments	81	-	-	-
Strategy – ICT for contract inflation and Microsoft licences	413	-	-	-
Finance – contract management improvements	136	-	-	-
Governance – elections and occupational health	82	-	-	-
West Midlands transportation levy	98	-	-	-
General Inflation and demographic growth (includes utilities)	1,194	1,230	1,268	1,268
Growth to support Council Priorities	1,647	(1,514)	1,000	-
Corporate Contingency for Corporate Landlord	(250)	(250)	-	-
Reversal of growth held for Covid implications 2021-2022	(4,310)	-	-	-
Covid implications 2022-2023 – loss of income	1,870	(950)	-	-
Review of future credit losses	(500)	500	(500)	-
<b>Total</b>	<b>10,130</b>	<b>3,953</b>	<b>6,766</b>	<b>5,038</b>

- 1.15 In addition to this, the level of borrowing required to support the capital programme has been reviewed and the treasury management forecast tested to ascertain the budget requirement for 2022-2023. It is therefore proposed the Treasury Management budget is reduced by £1.5 million in 2022-2023 with proposed revisions to growth assumptions over the medium term also incorporated into the MTFS. The table below shows the changes to the Treasury Management budget over the MTFS period.

**Table 4 – Changes to the Treasury Management Budget**

	2022-2023	2023-2024	2024-2025	2025-2026
	£000	£000	£000	£000
Treasury Management Budget	(1,500)	(1,000)	(1,500)	(500)

### **Efficiencies**

- 1.16 Cabinet in February 2021 approved the 2021-2022 Budget and MTFS 2021-2022 to 2023-2024. Due to the one-off nature of Budget Reduction, Income Generation and Efficiencies in 2021-2022, this resulted in a net growth of £634,000 being built back into the MTFS for the period of 2022-2023 to 2023-2024. This is summarised in the table below:

**Table 5 – Budget Reduction, Income Generation and Efficiency totals as at February 2021**

	2022-2023	2023-2024
	£000	£000
Budget Reduction, Income Generation and Efficiency targets	3,164	(2,530)

- 1.17 As part of the detailed budget review, a number of efficiencies have been identified for 2022-2023 and future years. As detailed in paragraphs 7.17 of the report, the majority of efficiencies are predominantly one-off in nature.

### **Capital Receipts Flexibilities**

- 1.18 In 2016-2017 the Government allowed councils to use new capital receipts from April 2016 to March 2019 to pay for transformation work that is designed to make revenue savings. The provisional settlement 2018 announced the continuation of this flexibility for a further three years taking it to 2021-2022. The use of capital receipts to fund revenue transformation has been extended further until 2024-2025.
- 1.19 On 28 July 2021, Cabinet approved the draft budget strategy which included the continuation of the capital receipts flexibility until 2024-2025. In October 2021, it was proposed that £5 million was built into the 2022-2023 budget strategy.
- 1.20 Following on from the announcement the additional one-off grants for 2022-2023, and the overall budget position it is proposed that the level of capital receipts which can be utilised in 2022-2023 to support the budget strategy is reduced to £3 million.
- 1.21 The Capital Programme, as presented to Councillors for approval at this meeting, includes assumptions about the level of capital receipts to be generated in 2022-2023 and the use of capital receipts to pay for revenue costs of transformational projects that are designed to make revenue budget reductions. This is also reflected in the MTFS.

- 1.22 Throughout the year, capital receipts generated will be reviewed and assessed to ensure that capital receipts are applied in the most effective way.

### **One-off Opportunities**

- 1.23 In June 2021 the outturn position for 2020-2021 was presented to Cabinet. It was noted that as a result of the overall outturn position, there was no call on the Future Years Budget Strategy (£2.3 million) and the Job Evaluation (£1.0 million) reserves. It is proposed that the use of these reserves is built into the 2022-2023 budget. In addition, it is also proposed that the Treasury Management Equalisation Reserve of £1.7 million be released in 2022-2023.
- 1.24 It was reported to Council that in the budget for 2021-2022 there was an estimated net cost of £6.4 million relating to the impact of Covid-19. Efficiencies across the Council enabled the Council to set a balanced budget despite this pressure. The Council has managed the use of Covid-19 grants very carefully which enabled some grant to be carried forward into the current financial year. It is proposed that in the first instance, £5.0 million of Covid-19 Emergency Grant is drawn down to support the underlying budget pressures in 2021-2022, thereby releasing general fund resources which can be utilised to meet the budget deficit in 2022-2023.
- 1.25 In addition, Cabinet were informed in the 2021-2022 revenue monitoring that there were efficiencies across some services. In accordance with the 2022-2023 budget strategy as approved by Cabinet in October 2021, it is proposed that 2021-2022 underspends in the region of £4.0 million be transferred to a specific reserve to support the budget strategy for 2022-2023. Following a review of the overall budget position including the outcome of the provisional settlement, it is proposed that £1.0 million of this reserve supports the 2022-2023 budget strategy whilst £3.0 million is set aside to support the 2023-2024 budget strategy.
- 1.26 These efficiencies and their impact across financial years are also listed in full in the table below. A full list of all budget reduction, income generation and efficiencies are shown in Appendix 2:

**Table 6 –Efficiencies**

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Use of budget strategy reserve	(2,347)	2,347	-	-
Use of Job Evaluation Reserve	(1,000)	1,000	-	-
Use of Treasury Management Reserve	(1,651)	1,651	-	-
Capital Receipts flexibility	(3,000)	(2,000)	-	5,000
Use of Covid-19 emergency grant in 2021-2022 (creation of reserve from efficiencies)	(5,000)	5,000	-	-
Use of one-off grants	(1,000)	1,000	-	-

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Anticipated underspends in 2021-2022 to carry forward	(1,000)	(2,000)	3,000	-
In year efficiencies from across services	(1,500)	(1,000)	(1,000)	(1,000)
Review of corporate pot	-	(500)	-	-
Vacancy Factor – to replace Staff	(1,200)	-	-	-
Terms and Conditions saving				
One-off efficiencies from up-front pension payment	(650)	650	-	-
<b>Total</b>	<b>(18,348)</b>	<b>6,148</b>	<b>2,000</b>	<b>4,000</b>

### Revisions to Budget Reduction Targets

- 1.27 As reported to Cabinet in October 2021, in depth reviews have been undertaken on existing budget reduction and income generation proposals. This has been particularly important in light of the Covid-19 pandemic and changes to the environment in which we currently operate. It has been identified that £4.2 million of savings will not be delivered in 2022-2023 as originally planned and £1.0 million in 2023-2024. More details can be found in paragraph 7.20 of the report.
- 1.28 The table below provides a list of the financial impact of the proposed revisions.

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

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Revision – deletion of budget reduction targets				
- Staff Terms and Conditions – (replaced with vacancy factor see table 6 above)	1,200	-	-	-
- HR Business Improvement review (2021-2022 and 2022-2023)	300	-	-	-
- Efficiencies from contract procurement and management	500	-	-	-
- Adult Social Care	2,167	-	-	-
- Waste Services – Phase 2	-	1,000	-	-
<b>Total</b>	<b>4,167</b>	<b>1,000</b>	<b>-</b>	<b>-</b>

- 1.29 Following in-depth reviews of the budget reduction proposals, it is proposed that these changes be reflected in the Council's medium term financial strategy in order to be prudent.

### Corporate Resources

- 1.30 As detailed in paragraphs 7.22 to 7.25 of the report, recent Government announcements have provided some clarity for the forthcoming financial year; however, the Council continues to face significant uncertainty over the medium term, and it is particularly challenging to establish a medium term financial strategy beyond 2022-2023. A number of assumptions have been made on the level of resources that will be available to the Council.
- 1.31 On 27 October 2021, the Government announced the outcome of the Spending Review 2021, the headlines of which were reported to Cabinet on 8 December 2021. The Spending Review covered the period from 2022-2023 to 2024-2025.
- 1.32 On 16 December 2021, the Government announced the Provisional Local Government Settlement, details of this were reported to Cabinet in January 2022. On 7 February 2022, the Secretary of State for Levelling Up, Housing and Communities published a written statement on the Final Local Government Finance Settlement 2022-2023, the final settlement was debated in the House of Commons on 9 February 2022. The changes in resources assumptions arising as a result of the announcements and the detailed work that has been ongoing is detailed in the paragraphs below.

### Collection Fund Estimated Outturn

- 1.33 Further details regarding the assumptions made on the Collection Fund estimated outturn and corresponding Government announcements can be found in paragraphs 7.26 to 7.32 in the report, whilst the table below provides details of the collection fund deficit that will be retained by the Council.

**Table 8 – Retained Element of Collection Fund Deficit**

Elements of Collection Fund	Deficit £000	Retained %	Retained Deficit £000
Council Tax	3,505	88.3%	3,095
Business Rates	20,824	99.0%	20,616
<b>Total</b>	<b>24,329</b>		<b>23,711</b>

- 1.34 The estimate on the Collection Fund for 2021-2022 set out above includes assumptions about collection rates. It is forecast that there will be an accumulated deficit on both elements of the collection fund as at the 31 March 2022. It is important to note that this includes the carry forward of the in-year 2020-2021 deficit, which the Government confirmed could be spread over 3 years from 2021-2022 to 2023-2024.
- 1.35 Furthermore, within the 2021-2022 deficit stated above for business rates, the Government have provided Section 31 grant for Covid-19 business rates reliefs granted

to businesses, in order to compensate local authorities for the reduction in business rates income.

- 1.36 This also includes the Covid-19 Additional Relief Fund (CARF) allocations, which were announced by the Government on 15 December 2021. This additional business rates relief will reduce the overall net rates payable in 2021-2022, and is included in the assumptions above, however the Council will be compensated in full through additional Section 31 grant.

### **Business Rates**

- 1.37 The National Non-Domestic Rates Return 1 (NNDR1) was compiled and returned to the Department of Levelling Up, Housing and Communities (DLUHC) by the deadline of 31 January 2022.
- 1.38 In October 2016, Cabinet approved that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority (WMCA), will participate in a business rates retention pilot from April 2017, on a no financial detriment basis. The continuation of this arrangement to 2022-2023 was confirmed in the provisional settlement in December 2021. As a result of entering into this pilot, the Council will retain 99% of the business rates but no longer receive Revenue Support Grant and instead receive a Top Up Grant adjustment to account for the net effect of the changes.
- 1.39 On 8 December 2021, Cabinet approved the Collection Fund Business Rates Net Yield for 2022-2023 at £65.6 million. Following revisions arising as a result of further data becoming available, the Portfolio Holder for Resources in consultation with the Director of Finance approved the revised Business Rates baseline net rate yield to £65.454 million. Of the £65.454 million net rate yielded by business rates forecast to be collected in 2022-2023 the Council would retain in the region of £64.8 million under the 99% business rate retention scheme pilot. The estimate of net rates payable in 2022-2023 assumes continued pressure on business rates collection, including the potential for further business rates appeals.
- 1.40 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. This includes compensation for a freeze on the business rates multiplier in 2022-2023, and grant to compensate for business rates relief. Overall, Section 31 grant income for business rates policies totalling £21.2 million is projected for 2022-2022 based upon the NNDR1 form returned to the Department for Levelling Up, Housing and Communities (DLUHC) by 31 January 2022. The Covid-19 business rates relief for Retail, Leisure and Hospitality is at the point of writing is not known to be extended beyond 2022-2023, and therefore the level of section 31 grant over the medium term reduces. However, this business rates income would therefore be levied on these businesses and is therefore assumed in the business rates base for 2023-2024 onwards.



- 1.41 One part of the West Midlands Devolution Deal included the WMCA receiving the real terms growth in the central share of business rates, which came into effect from 1 April 2016 onwards. This was the share that was previously held by central government.
- 1.42 There is some complexity in identifying the true business rates growth between years due to business rates appeals and the 2017 revaluation, however an approach to allocate the growth in the central share for 2017-2018 to 2021-2022 has been agreed with the WMCA. The assumed growth of £9.0 million attributable to the WMCA in 2021-2022, in line with the Investment Plan assumptions, has been apportioned for each authority pro rata to the aggregate Rateable Value at the start of the year, resulting in a contribution from Wolverhampton in the region of £680,000.
- 1.43 The basis for growth assumptions and distribution for 2022-2023 has yet to be agreed, in light of the ongoing Covid-19 pandemic and the impact on business rates collection. It is therefore proposed that Cabinet delegate authority to the Portfolio Holder for Resources, in consultation with the Director of Finance, to approve the calculation and allocation of growth in the central share for 2022-2023 and future years to be passported to the WMCA.
- 1.44 It is important to note, the MTFS assumes the Business Rates retention scheme continues at the current level of business rates retention (99%) over the medium term up to 2025-2026 with no detrimental impact of a Business Rates reset or changes to the retention scheme. In addition, only inflationary growth in the business rates multiplier is assumed in the MTFS. Any amendments arising of funding reforms could impact on the councils MTFS.

### **Council Tax**

- 1.45 On 8 December 2021, Cabinet approved the council tax base for 2022-2023 at 64,936.94 Band D equivalent properties. Section 8 in the report provides further details on Government announcements regarding council tax and the adult social care precept.
- 1.46 The report recommends an increase in Council Tax of 1.99%, in addition to the Government's social care precept of 1%, totalling 2.99%. This would result in a council tax for council services in 2022-2023 of £1,818.27 for a Band D property in Wolverhampton. When Government publish what funding is available to councils, they include an assumption regarding the raising of council tax – this also includes the levy to fund adult social care. Not doing so would mean making more cuts to essential services and being unable to deliver on residents' priorities. Projections in the MTFS assume that Council Tax will continue to increase by 1.99%, whilst the tax base is anticipated to rise by 1% in each financial year, this generates on average £3.5 million per year. Furthermore, the MTFS assumes that the adult social care precept will increase by 1% in each financial year over the spending review period, which generates on average a further £1.2 million per year.

## **Grants**

- 1.47 Paragraphs 7.33 to 7.37 in the report provide further details on grant funding for Social Care, and the Services Grant 2022-2023 announced as part of the final settlement for 2022-2023.

### **Lower Tier Services Grant**

- 1.48 The Government have also announced the continuation of the Lower Tier Services grant to local authorities responsible for delivering lower tier services, such as council tax collection, building regulations, parking, housing services, environmental health, recreation and refuse collection. The Council's final allocation is £487,000. The MTFS assumes this grant will not continue beyond 2022-2023.

### **New Homes Bonus**

- 1.49 The Government have announced the continuation of the New Homes Bonus scheme for a further year with no new legacy payments.
- 1.50 The Council's final allocation for 2022-2023 has been announced at £1.6 million, which includes an additional £1.4 million for 2022-2023. The MTFS did not assume any additional New Homes Bonus being awarded for growth from 2022-2023 onwards therefore the £1.4 million allocation represents additional income to the budget for 2022-2023. The MTFS assumes this grant will not continue beyond 2022-2023.

### **Top Up Grant**

- 1.51 As detailed above, the Council is part of the West Midlands pilot for 100% business rates retention and will therefore continue to no longer receive Revenue Support Grant but receive an amended Top Up Grant to reflect the business rates retention model. Top Up Grant for 2022-2023 has been uplifted by inflation, this is an increase of £697,000, above current the assumptions previously built into the MTFS, this takes the 2022-2023 allocation to £27.4 million. The MTFS assumes the that this grant will be uplifted by inflation (at 2%) for future years.

### **Section 31 Grant – Business Rates Retention**

- 1.52 Section 31 Grant compensates the Council for an element of mandatory business rates reliefs and the cap on inflationary increases on the business rates multiplier. Section 31 grant income totalling £21.2 million is projected for 2022-2023 based upon the NNDR1 form returned to DLUHC by 31 January 2022.
- 1.53 The MTFS currently assumes that that this grant will continue at 2022-2023 levels over the medium term period to 2025-2026, with the expectation of the Section 31 grant element that funds the Retail, Leisure and Hospitality business rates relief. Therefore, the level of Section 31 grant assumed annually from 2023-2024 is £15.2 million.

- 1.54 The overall impact of the revisions to the Budget and Medium Term Financial Strategy 2022-2023 to 2025-2026, arising as result of the items detailed in the paragraphs above, have been reflected in the table below.

**Table 9 - Draft Budget and Medium Term**

	2022-2023 £000	2023-2024 £000	2024-2025 £000	2025-2026 £000
Previous Years Net Budget brought forward	258,497	267,159	280,956	294,627
Increasing / (Decreasing) Cost Pressures				
- Pay Related Pressures	6,050	5,226	5,405	5,585
- Treasury Management	2,379	-	-	(500)
- Budget Growth	10,130	3,953	6,766	5,038
- Budget Reduction, Income Generation & Efficiency targets	(11,017)	4,618	1,500	4,000
- Net Impact of changes to specific grants	1,120	-	-	-
<b>Net Budget (Before Use of Resources)</b>	<b>267,159</b>	<b>280,956</b>	<b>294,627</b>	<b>308,750</b>
<b>Projected Corporate Resources</b>				
- Council Tax (including Adult Social Care precept)	(118,072)	(122,818)	(127,756)	(131,601)
- Business Rates (net of WMCA growth payment)	(64,000)	(70,461)	(71,768)	(73,001)
- Enterprise Zone Business Rates	(1,422)	(1,408)	(1,375)	(1,340)
- Section 31 Grant – business rates support	(21,170)	(15,245)	(15,245)	(15,245)
- Collection fund deficit/ (surplus) forecast (net of irrecoverable losses grant)	1,781	1,619	(595)	(595)
- Top Up Grant	(27,399)	(27,947)	(28,506)	(29,076)
- New Homes Bonus	(1,632)	-	-	-
- Improved Better Care Fund	(14,761)	(14,761)	(14,761)	(14,761)
- Social Care Grants	(16,305)	(16,305)	(16,305)	(16,305)
- Services Grant 2022-2023	(5,492)	-	-	-
- Services Grant – element to fund NI increase	-	(1,000)	(1,000)	(1,000)
- Lower Tier Funding	(487)	-	-	-
- Contribution to reserves	1,800	-	-	-
<b>Total projected resources</b>	<b>267,159</b>	<b>268,326</b>	<b>277,311</b>	<b>282,924</b>
<b>Projected Budget Annual Change in Budget Deficit / (Surplus)</b>	<b>-</b>	<b>12,630</b>	<b>4,686</b>	<b>8,510</b>
<b>Projected Cumulative Budget Deficit</b>		<b>12,630</b>	<b>17,316</b>	<b>25,826</b>

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