

Report title	2023-2024 Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Obaida Ahmed Resources and Digital City	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable Director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
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Report to be/has been considered by	Strategic Executive Board Scrutiny Board Cabinet Full Council	3 January 2023 7 February 2023 22 February 2023 1 March 2023

Recommendations for decision:

The Scrutiny Board is recommended to:

1. Review the 2023-2024 Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026 and how it is aligned the priorities of the Council.

1.0 Purpose

- 1.1 The purpose of this report is to seek Scrutiny Board's feedback on the 2023-2024 draft Budget and Medium Term Financial Strategy (MTFS) 2023-2024 including budget proposals, and how they align to the priorities of the Council.
- 1.2 During November to January the individual Scrutiny Panels have received the draft budget and MTFS and asked to scrutinise the budget and how it is aligned to the priorities of the Council. The comments from the panels are presented to Scrutiny Board on this agenda in a separate report.
- 1.3 The report details the draft proposals that will enable the Council to set a balanced budget for 2023-2024 without the need to use general reserves and provides an update on the MTFS 2023-2024 to 2025-2026. The Final Budget Report will be presented to Cabinet on 22 February 2023 and Full Council on 1 March 2023.
- 1.4 Whilst the proposals outlined in this report will enable the Council to set a balanced budget for 2023-2024, there is still a high level of uncertainty going forward and a significant financial challenge over the medium term with a projected deficit for 2024-2025 of £16.4 million, rising to £22.9 million by 2025-2026.

2.0 Background

- 2.1 On the 22 February 2023, Cabinet will receive the 2023-2024 Budget and Medium-Term Financial Strategy 2023-2024 to 2025-2026 report which will then be considered by Full Council on 1 March 2023.
- 2.2 Cabinet will be asked to recommend that Council approves:
 - The net budget requirement for 2023-2024 of £306.1 million for General Fund services.
 - The Medium Term Financial Strategy (MTFS) 2023-2024 to 2025-2026 and the key assumptions underpinning the MTFS as detailed in Appendix 1 and 2 to this report
 - A Council Tax for Council services in 2023-2024 of £1,909.01 for a Band D property, being an increase of 4.99% on 2022-2023 levels, which incorporates the 2% in relation to Adult Social Care
- 2.3 The City of Wolverhampton Council has built up a strong track record over many years of managing its finances well and despite reductions in government funding, consistently setting a balanced budget. Over the last thirteen years budget setting processes, the Council has identified budget reductions in the region of £240 million. Our approach to strategic financial management, aligning budgets to service priorities and improving services, and investing in transformation priorities, continues to put us in a strong financial position.
- 2.4 On 2 March 2022, the Council approved the net budget requirement for 2022-2023 of £267.2 million for General Fund services. This was the eighth-year running the Council

was able to set a balanced budget without the need to make use of the General Fund Reserve. It was projected that the Council would be faced with finding further estimated budget reductions totalling £12.6 million in 2023-2024 rising to £25.8 million by 2025-2026. As detailed in the body this report and the strategy outlined in section 5, the Council has been able to balance the budget without needing to make significant cuts to services.

- 2.5 Cabinet have been updated throughout the year as work progressed to address the budget deficit. In October 2022, Cabinet received a report with an update on progress towards the budget strategy 2023-2024 and future years, when taking into account the latest information available on the external factors identified and other emerging pressures that are faced by the Council. It was reported that the updated forecast budget deficit was £7.1 million for 2023-2024, rising to £31.6 million by 2025-2026, and work would continue to be undertaken to bring forward proposals to set a balanced budget for 2023-2024 and deliver a sustainable medium term financial strategy.
- 2.6 Since October, the 2023-2024 budget setting process has continued with the identification of emerging budget pressures, in particular the increasing cost pressures due to rising inflation, analysis of the provisional settlement and further efficiency measures.
- 2.7 Reserves play a vital role in the financial sustainability of the Council. It is important to note that, the Council's General Fund Balance currently stands at £13.7 million, which is approximately 5% of the 2022-2023 net budget. This level of reserve is approximately 4.5% of the 2023-2024 net draft budget. In order to maintain a 5% reserve for next financial year, it is proposed that £1.6 million is transferred from the Budget Strategy Reserve. In addition, the Council holds specific reserves which are set aside to fund future planned expenditure. It is vital the Council continues to hold these reserves to mitigate the risk of uncertainty of any potential future expenditure and to support the delivery of council priorities, therefore it is not an option to use these funds to meet the budget deficit.
- 2.8 The Director of Finance anticipates recommending the MTFs to Cabinet in February 2023 as a reasonable forecast over the medium term but recognises that external factors detailed throughout this report could have a significant impact on the financial position.

3.0 Our City, Our Plan

- 3.1 The Council's strategic approach to address the budget deficit is to align resources to Our City, Our Plan which was approved by Full Council on 2 March 2022.
- 3.2 The plan continues to identify an overarching ambition that 'Wulfrunians will live longer healthier lives' delivered through six overarching priorities:
- Strong families where children grow up well and achieve their full potential
 - Fulfilled lives for all with quality care for those that need it
 - Healthy, inclusive communities

- Good homes in well-connected neighbourhoods
- More local people into good jobs and training
- Thriving economy in all parts of the city

3.3 These priorities together with the associated key outcomes, objectives and activity form a framework to improve outcomes for local people and deliver our levelling up ambitions.

3.4 Supporting the six overarching priorities are three cross cutting principles

- Climate Conscious
- Driven by Digital
- Fair and Equal

4.0 Medium Term Financial Strategy – Key Assumptions

4.1 Despite reductions in funding, the Council has a strong track-record of managing money well, planning ahead and delivering excellent services.

4.2 The assumptions used in the preparation of the Budget and Medium Term Financial Strategy remain under constant review and update.

4.3 The major budget assumptions used in the preparation of the budget and MTFs are detailed in Appendix 1 and 2 of this report which provide details of the changes to growth and inflation, budget reduction, income generation and efficiency proposals, and corporate resource assumptions, which are recommended for inclusion in the 2023-2024 draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026.

4.4 The provisional settlement announced on 19 December 2022, was one year only and although some high-level assumptions were provided for 2024-2025, there still remains considerable uncertainty around future funding, and it is particularly challenging to establish a medium term financial strategy beyond 2023-2024. However, work has been ongoing to project a forecast medium term position as detailed in this report. It is projected that the medium term forecast budget deficit could be in the region of £22.9 million by 2025-2026. In order to project the potential budget deficit a number of assumptions have been made on the level of resources that will be available to the Council, as detailed in this report and Appendix 2.

4.5 The overall impact of the revisions to the 2023-2024 draft budget and medium term financial strategy 2023-2024 to 2025-2026 are detailed in Table 6. Some of the key budget assumptions are also detailed in the paragraphs below. A full list of all budget reduction, income generation and efficiency targets incorporated in the MTFs are detailed in Appendix 3.

Pay Related Pressures

- 4.6 It was reported to Cabinet in November 2022, in the Performance and Budget Monitoring Report 2022-2023, that the 2022-2023 pay award offer to the unions representing the main local government NJC workforce has been accepted. The 2022-2023 budget includes a provision of 2% amounting to £2.8 million, whereby the forecast cost of the approved 2022-2023 pay-award is expected to be in the region of £9.0 million, an additional pressure of £6.2 million. Work has been ongoing to identify in-year efficiencies to mitigate against these costs on both a recurrent and one-off basis. The forecast ongoing cost pressures have been built into the 2023-2024 draft budget and MTFS.
- 4.7 At the time of writing this report, the national negotiations for a 2023-2024 pay award are still ongoing. The draft budget and MTFS reported to Cabinet in October built in a provision of a 4% pay award, however, due to rising inflation it has been considered prudent to increase this assumption to 5%. An increase of 1% in pay award on average costs around £1.6 million. In the event that the pay award is above 5% and in year efficiencies cannot be identified in 2023-2024, the budget contingency / budget strategy reserves will be called upon to fund the shortfall.
- 4.8 In addition, it was reported that the National Living Wage (NLW) was projected to increase over the medium term from £9.50 in 2022-2023, £10.60 in 2023-2024 to £11.35 by 2024-2025. Pay Point 1 on the Council's pay spine is being deleted from 1 April 2023 as a result of the 2022-2023 pay agreement. This means the lowest pay on our pay scale from 1 April 2023 will be £10.60 per hour until the 2023-2024 pay award is agreed leaving no headroom between that and the NLW adding to the complexities of considerations on the pay award and appropriate budgeting for the pay award.
- 4.9 The Council in the context of its role in as a participating employer within the West Midlands Pension Fund (the Fund), was subject to a triennial actuarial review which sets the employer pension contribution requirements over the period of 2023-2024 to 2025-2026. It was reported in October that the MTFS reflected the forecasts based on the previous valuation in 2019. The Council has received the provisional outcome of the triennial actuarial review (the final outcome will not be known until April), which has resulted in decrease in the employers' pension contributions to the West Midlands Pension Fund. This decrease has been factored into the forecast adjustments for pay related growth.
- 4.10 The projected budget adjustments arising from the combined pay related pressures is detailed in Appendix 1.

Budget Pressures

- 4.11 A number of emerging pressures have been identified throughout the current financial year and in order to be prudent those pressures have been recognised into the 2023-2024 draft budget and MTFS. The key draft budget pressures reflected are detailed in the paragraphs below whilst a full list of budget pressures incorporated into the draft budget and MTFS can be found at Appendix 1.

4.12 In March 2022, Council approved growth and inflation totalling £3.9 million for 2023-2024, rising to £15.8 million over the medium term to 2025-2026. As detailed in the paragraphs below, additional inflationary pressures have been identified in 2023-2024 and over the medium term due to rising inflation and increasing demand on our services, resulting in further growth of £26.7 million having to be built into the Budget and MTFs over the medium term. The table below summaries the total inflation, demand and development, further detail can be found in Appendix 1.

Table 1 – Total Inflation, demand and development

	2023-2024	2024-2025	2025-2026
	£000	£000	£000
Inflation	26,137	11,964	1,309
Demand	1,756	500	500
Development	844	(315)	(215)
Total	28,737	12,149	1,594

4.13 Inflation in the UK is at the highest it has been for four decades, which means the country is facing an increase in the cost of living, with food, petrol and energy bills all increasing. We continue to track the forecast impact of inflation carefully, gathering information from a number of sources to build up an accurate picture.

4.14 During 2022-2023 wholesale energy prices have soared due to levels of supply and demand: therefore, resulting in increased gas and electricity costs for consumers. In October 2022, it was forecast that inflationary pressures were predicted to be in the region of £2.0 million, but this would be kept under review. Further detailed work has been undertaken and the updated projected cost pressure arising from energy increase for both gas and electricity (including street lighting), is forecast to be in the region of £5.6 million. It is important to note that there is considerable uncertainty around future prices so this will continue to be monitored and reviewed, with updated provided to Councillors as part of the Performance and Budget Monitoring Reports.

4.15 In addition, pressures have been reported to Cabinet in the Performance and Budget Monitoring Reports for this financial year including, but not limited to, increased cost pressures associated with temporary housing accommodation, increasing demand on passenger transport and additional vehicle hire.

4.16 There is considerable uncertainty around the cost of adult social care over the medium term due to the increase in demand for services, impact of a fee uplift, the pandemic, and the increasing cost of living. As detailed in paragraph 7.14, Adults Services are currently undertaking a fee review which is scheduled for pre-scrutiny decision in February and then onto Cabinet. The draft budget and MTFs has been reviewed in light of the forecast growth and the additional social care grants announced as part of the provisional settlement. The draft budget and MTFs currently incorporate growth totalling £14 million in 2023-2024. Current forecasts on potential growth required for 2023-2024 and over the

medium term will be reviewed and updated if required once the work on the fee uplift has been concluded.

- 4.17 It was also reported to Cabinet in October 2022 that pressures were being identified within the Organisational Theme in the region of £2.3 million to support transformation work which will help drive out efficiencies across the council. It was anticipated at this time that this work in part, was to be funded from efficiencies from across services who will benefit from this transformation, and the expected growth would be reduced once the funding strategy was finalised. Further work has now been undertaken to determine the level of growth required to fund these costs upfront, as a result this growth has reduced by £1.3 million.
- 4.18 As detailed above the current cost of living crisis has significantly distorted the budget and MTFS. It is not yet known how long these cost pressures will go on for or what the level of future support will be required. It is therefore proposed that a corporate contingency budget is established to support pressures within 2023-2024. In the event that this budget is not required in full, the Director of Finance will seek to support the efficiency targets as detailed in paragraph 5.3 and 5.4, and / or reduce the level of capital receipt flexibility utilised in 2023-2024.

5.0 Financial Strategy

5.1 The Financial Strategy, approved by Council in March 2019, consists of five core principles:

- **Focusing on Core Business.** Focus will be given to those activities that deliver the outcomes local people need and which align to our Council Plan and Financial Strategy.
- **Promoting Independence and Wellbeing.** We will enable local people to live independently by unlocking capacity within communities to provide an effective and supportive environment.
- **Delivering Inclusive Economic Growth.** We will continue to drive investment in the City to create future economic and employment opportunities.
- **Balancing Risk.** We will ensure we base decisions on evidence, data and customer insight.
- **Commercialising our Approach.** We will boost social value in our City by maximising local procurement spend with people and businesses.

5.2 It was reported to Cabinet in October 2022 that with these core principles in mind, the Council's Leadership Team has been carrying out extensive work in order to identify proposals to support the medium-term financial strategy and work was ongoing across the following themes:

- Our assets
- Procurement and contracts – particularly focused on embedding the Wolverhampton Pound approach
- Income collection, debt management and recovery

- Business processes
- Digital and data
- Delivery models
- Income generation including fees and charges
- Human resources and occupational development

5.3 The draft budget reported to Cabinet in October included an efficiency target totalling £6.4 million over the medium term linked to this work.

5.4 It was also reported to Cabinet in October, that over a number of years, in-year efficiencies have been delivered across a number of services, without impacting on the delivery of Council priorities. The Budget report approved by Council in March 2022, approved the inclusion of a £4.5 million efficiency target over the medium term to 2025-2026, of which £2.5 million is in 2023-2024. The July budget report increased this target by a further £3.0 million in 2023-2024.

Revisions to Budget Reduction Targets

5.5 Work has continued to review existing budget reduction and income generation proposals to ensure they are deliverable over the medium term. This has been particularly important in light of rising inflation and changes to the environment in which we currently operate. Since reporting to Cabinet in October 2022, a further six budget reduction targets have been identified as not been able to be delivered as originally planned totalling £810,000.

5.6 The revision to existing budget reduction proposals, to ensure that they are deliverable over the medium term, have been reflected in the draft medium term financial strategy. Further detail can be found in Appendix 1 and a full list of all proposed budget reduction, income generation and efficiency targets can be found in Appendix 3.

6.0 2023-2024 Draft Net Budget Requirements

6.1 The draft net budget requirement for 2023-2024 for the General Fund Services is £306.1 million. In the opinion of the Director of Finance (Section 151 Officer) the 2023-2024 draft budget estimates are robust. The Council's proposed budget for 2023-2024 does not require the use of general reserves in order set a balanced budget. We will continue to monitor the risks associated with the budget, detailed in the Table 7 below, and provide updates to Councillors as part of the quarterly Performance and Budget Monitoring reports.

6.2 The Council's draft budget requirements for 2023-2024 is shown at Table 2. Further details showing the forecast movement between years can be found at Appendix 4.

Table 2 – 2023-2024 – Net Controllable Draft Budget Requirements

Directorate	2022-2023 Revised Net Controllable Budget £000	2023-2024 Draft Net Controllable Budget £000
Adult Services	80,965	95,052
Children's Services	50,572	49,934
Commissioning and Transformation	3,552	3,494
City Assets	11,498	14,324
City Housing and Environment	32,332	34,351
Corporate Accounts	33,003	53,515
Communications and Visitor Experience	2,420	2,565
Education and Skills	2,281	2,577
Finance	15,497	15,546
Governance	14,485	14,415
Public Health & Wellbeing	5,769	5,295
Regeneration	2,628	2,675
Strategy	12,157	12,316
Total Net Budget Requirement	267,159	306,059

7.0 Local Government Financial Settlement

- 7.1 On 19 December 2022, the Government announced the provisional local government finance settlement, referred to herein as the provisional settlement, for 2023-2024. The final settlement has not yet been announced.
- 7.2 The provisional settlement is for one year only and is based on the Spending Review 2021 funding levels, updated for the 2022 Autumn Statement announcement. The key headlines from the provisional settlement are outlined in the paragraphs below, these assumptions have been incorporated into the draft budget and MTFS.
- 7.3 On an annual basis Government calculates the core spending power for local authorities. The core spending power is a measure of the resources available to local authorities to fund service delivery, including council tax and locally retained business rates. The provisional settlement for Wolverhampton showed an increase of 10% in core spending power. However, it should be noted that the core spending power assumes that Council Tax will increase by 4.99% and that there will also be an increase in the number of properties within Wolverhampton. This also includes the additional social care grants detailed below which are vital to support the increasing costs due to demand and inflationary pressures across Adult Social Care. The table below summaries the increase in our Core Spending power between 2022-2023 and 2023-2023

Table 3 – Core Spending Power

Core Spending Power	2022- 2023 £000	2023- 2024 £000	Change £000	% of 10% increase
Core Funding				
Settlement Funding Assessment – net business rates position including relevant grants	102,980	108,765	5,785	
Compensation for under-indexing of business rates multiplier	8,143	14,080	5,937	
New Homes Bonus	1,632	709	(923)	
Services Grant	5,493	3,095	(2,398)	
Lower Tier Services Grant	487	-	(487)	
Grants rolled in	441	-	(441)	
Total of Core funding	119,176	126,649	7,473	2.76%
Council Tax	118,073	124,939	6,866	2.53%
Social Care Grants	32,015	44,793	12,778	4.71%
Total Core Spending Power	269,264	296,381	27,117	10%

- 7.4 As previously announced in the Autumn statement (announced on 17 November 2022), Government have increased the referendum limit for increases to council tax from 2% to 3% per year from April 2023. In addition, local authorities with Social Care responsibilities will be able to increase the adult social care precept by up to 2% per year, previously 1%. It should be noted that when Government publish what funding is available to councils, they include an assumption regarding the raising of council tax – this also includes the precept to fund adult social care.
- 7.5 In the Autumn Statement, the Government announced that there would be a freeze on the multiplier used to calculate the business rates payable by ratepayers together with the reliefs to be awarded under the Council’s discretionary powers, which the Council will be compensated by Section 31 grant. It was announced that local authorities will no longer be compensated based on Retail Price Index (RPI), with funding (whether through the multiplier increase or the compensation grant) being based on Consumer Price Index (CPI) only. The 12 month RPI reported in September 2022 was 12.6%, whereas the 12 months CPI was lower at 10.1%.
- 7.6 As reported to Cabinet on 18 January 2023, the net yield calculation is based on the rateable values of businesses on the Valuation Office Agency’s rating list, which is revalued every few years. The next revaluation will come into effect from 1 April 2023, the last revaluation took place in 2017. Wolverhampton have been provided with a draft

list which have been used to forecast the net rate yield for 2023-2024. This list shows that Wolverhampton has seen an increase in the rateable value in the region of 12%.

- 7.7 The Council receives a top up grant to 'top up' funding as the business rates baseline funding level determined by Government for the Council is greater than the forecast level of business rates that the Council can collect. The provisional settlement announced a provisional allocation of £25.3 million, a reduction of £3.2 million on the assumptions built into the draft budget and MTFS. This is due to a forecast increase in business rates income.
- 7.8 It was reported to Cabinet in July and October 2022, that a number of assumptions had been made with regards to the level of government funding that will be available to the Council. It was noted that a number of scenarios had been modelled reflecting different assumptions around inflationary uplifts on our grants, including the continuation of one-off grants such as New Homes Bonus, Lower Tier Fund and the Services Grant. The following paragraphs detail the announcements made in the provisional settlement on these grants.
- 7.9 It was confirmed that the new homes bonus scheme would continue for a further year with no legacy payments. The sum of the provisional allocation for the Council is £709,000. The draft budget and MTFS reported to Cabinet in October had already assumed the continuation of the grant into 2023-2024 at £680,000. The draft budget has been updated to reflect this slightly higher allocation.
- 7.10 Government announced the continuation of the 2022-2023 one-off Services Grant into 2023-2024, but at a reduced amount. The national allocation reduced from £822 million in 2022-2023 to £464 million 2023-2024. This reduction is due to the cancellation of the increase in National Insurance Contributions and to move funding to the Supporting Families Programme. The draft budget and MTFS assumed this would continue in part at £2.2 million in 2023-2024, the provisional settlement confirmed the allocation for Wolverhampton to be £3.1 million, the draft budget has been updated to reflect this change.
- 7.11 The provisional settlement announced the abolishment of the Lower Tier Fund. This grant has been replaced by a Minimum Funding Guarantee for 2023-2024 (further information on this fund can be found in Appendix 2). The draft budget and MTFS reported to Cabinet in October had assumed this grant would continue into 2023-2024 and future years at £440,000. The draft budget has been updated to reflect that this grant will not continue. Wolverhampton has not been awarded the Minimum Funding Guarantee grant as our overall increase is above the threshold.
- 7.12 The provisional settlement announced that three grants had been rolled into the Revenue Support Grant totalling £78 million nationally, the grants are the Local Council Tax Support Administration Subsidy Grant, Family Annexe Council Tax Discount grant and the funding for safety and standards enforcement. The draft budget had assumed that the Council would receive £430,000 from the Local Council Tax Support Administration

Subsidy Grant, the draft budget has been updated to reflect that Wolverhampton will no longer receive this specific grant.

- 7.13 The Government has delayed the national rollout for the social care charging reforms from October 2023 to October 2025. It was announced that funding for the implementation will be maintained within local government to enable local authorities to address the current adult social care pressures.
- 7.14 The provisional settlement confirmed the continuation of the Improved Better Care Fund (iBCF) at 2022-2023 levels, an increase in the social care fund, the roll forward of the Market Sustainability and Fair Cost of Care Fund and the new Adults Social Care Market Sustainability and Improvement Fund. These grants are vital to ensure that demand and inflationary pressures forecast across Adult Social Care can be funded. Adult Services are currently undertaking a fee review which is scheduled to go for pre-scrutiny decision in February and then onto Cabinet for approval. Current forecasts on potential growth required to support the service in 2023-2024 and over the medium term will be reviewed once this has been concluded and the budget assumptions updated if required. These grants have helped to contribute to the level of growth required for adult social care. The provisional settlement announced these grants at £44.8 million, an increase of £12.8 million. At the time of writing this report it is not known what additional reporting requirements or conditions will be attached to these new grants, therefore there may be additional constraints restricting our ability to use these grants to meet the local needs within Wolverhampton. Appendix 2 provides a further breakdown of these grants.
- 7.15 Appendix 2 provides further details on forecast Council Resources.

8.0 Draft Corporate Resources

- 8.1 Recent Government announcements have provided some clarity for the forthcoming financial year and some high-level indications on 2024-2025. National figures have been published for some grants such as the Social Care Grants, but not for all the grants local authorities receive. The Council continues to face significant uncertainty over the medium term, and it is particularly challenging to establish a medium-term financial strategy beyond 2023-2024. This is due to the uncertainty regarding potential resources that will be available to the Council.
- 8.2 In order to project the potential budget challenge faced by the Council, a number of assumptions have been made on the level of resources that will be available to the Council.
- 8.3 It is important to note that at the point information becomes available, it could, consequently, result in alterations to the financial position facing the Council.

Collection Fund assumptions

- 8.4 On 18 January 2023, Cabinet received a report detailing the estimated outturn on the Collection Fund for 2022-2023 which consisted of a projected cumulative deficit in the

region of £846,000 million on Council Tax, and a projected cumulative surplus in the region of £1.6 million on Business Rates. It is important to note that both elements include 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.

- 8.5 As previously reported, the Covid-19 pandemic, and the current cost of living crisis, continues to have a significant impact on the Wolverhampton community and economy. It continues to be difficult to arrive at an accurate forecast for council tax and business rates collection, however collection performance is now returning to pre-pandemic levels.

Council Tax and Housing Benefits

- 8.6 The Council Tax Base and NDR (Business Rates) Net Rate Yield 2023-2024 report was presented to Cabinet on 18 January 2023. Cabinet approved the council tax base for 2023-2024 at 65,994.12 Band D equivalent properties.
- 8.7 As detailed in paragraph 7.4, Government announced they have increased the referendum limit for increases to council tax from 2% to 3% per year from April 2023. In addition, local authorities with Social Care responsibilities will be able to increase the adult social care precept by up to 2% per year, previously 1%. This would therefore enable the Council to increase Council Tax by a maximum of 4.99% in 2023-2024; the sum of 2.99% council tax plus the 2% adult social care precept. The 2.99% increase along with projected housing growth would levy on average additional income of approximately £5.3 million in 2023-2024. Taking both increases into account the additional income is around £7.9 million in 2023-2024
- 8.8 Projections in the MTFs beyond 2023-2024 assume that Council Tax will increase by 1.99%, whilst the tax base is anticipated to rise by 1% in each financial year, this generates on average £3.6 million per year. Furthermore, the MTFs assumes that the adult social care precept will increase by 1% in each financial year over the medium term which generates on average a further £1.4 million in 2024-2025.
- 8.9 The resulting forecast impact on the level of the Council element of Council Tax for a Band D property in 2023-2024 is detailed in the table below.

Table 4 – Draft Council element of Council Tax for Band D Property in Wolverhampton

Band D	Draft £
2022-2023 Council Element of Council Tax (including adult social care)	1,818.27
2.99% increase	54.37
2% Adult Social Care Precept	36.37
	1,909.01

- 8.10 It is projected that income from Council Tax will rise in subsequent years, based upon the latest collection rates and tax base.

Council Tax

- 8.11 The net draft budget, as detailed in this report, is forecast to be £306.1 million. Having taken into account the forecast resources available it is necessary to increase the Council Tax by a total of 4.99% to set a balanced budget. Not increasing the level of council tax would mean making more reductions to the budgets for essential services over the medium term and not being unable to deliver on residents' priorities.
- 8.12 The Council recognise that residents are impacted significantly by increasing costs of living, and through the Financial Wellbeing Strategy is doing everything it can to support people. The strategy sets out how the city's long-term vision to improve lives of residents living in Wolverhampton. The strategy focuses on tackling poverty and improving the financial wellbeing of our residents and closely aligns to the priorities set out in Our City, Our Plan. The principles of the are to provide a range of support that is both necessary and effective, to always maximise opportunities to promote dignity choice and autonomy, to utilise a diverse range of channels to reach households most in need, to prioritise equality and diversity ensuring no one is left behind, to incorporate evidence-based approaches to support the implementation of the strategy and to support households on a journey from reliance to resilience.
- 8.13 In order to be able to provide specific targeted support with Council Tax payments, it is proposed that a further £500,000 is put into the funding strategy for Financial Wellbeing. An evidenced based approach will be utilised to ensure that funds can be utilised to provide support where it is most needed.

2023-2024 Draft Budget

- 8.14 As outlined in paragraph 6.1 and Table 2, the draft budget requirements for 2023-2024 is £306.1 million. The table details this against the forecast corporate resources when compared to 2022-2023.

Table 5 – Draft Budget

Division	2022-2023 Revised Controllable Budget £000	2023-2024 Draft Controllable Budget £000
Adult Services	80,965	95,052
Children's Services	50,572	49,934
Commissioning and Transformation	3,552	3,494
City Assets	11,498	14,324
City Housing and Environment	32,332	34,351
Corporate Accounts	33,003	53,515
Communications and Visitor Experience	2,420	2,565
Education and Skills	2,281	2,577
Finance	15,497	15,546
Governance	14,485	14,415

Division	2022-2023 Revised Controllable Budget £000	2023-2024 Draft Controllable Budget £000
Public Health & Wellbeing	5,769	5,295
Regeneration	2,628	2,675
Strategy	12,157	12,316
Total Draft Net Budget Requirement	267,159	306,059
Corporate Resources		
Council Tax (including Adult Social Care Precept)	(118,072)	(125,983)
Business Rates and grants*	(113,991)	(128,227)
Collection Fund deficit (surplus)	1,781	(3,253)
General Grants	(7,611)	(3,803)
Social Care Grants	(31,066)	(44,793)
Contribution to / from reserves	1,800	-
Total Draft Corporate Resources	(267,159)	(306,059)

*inclusive of Enterprise Zone business rates and section 31 grants and Top up Grant, and net of payment to WMCA

Draft Medium Term Financial Strategy

- 8.15 Table 6 details the draft MTFS projections for the period to 2025-2026. It incorporates extensive budget preparation work that has been ongoing in recent months for the period up to 2025-2026, in addition to those adjustments arising as a result of changes in assumptions, as detailed in this report and corresponding appendices.
- 8.16 The table details incremental changes to forecast expenditure, starting from the base position of the 2022-2023 budget. The forecast expenditure is then compared with anticipated resources available to arrive at the projected deficit.
- 8.17 Due to the uncertainty the Council currently faces, it is particularly challenging to establish a MTFS beyond 2023-2024. Expenditure forecasts include estimates of growth in various areas, inflationary pressures for energy costs, social care due to demand and the rising costs of services. These estimates will continue to be reviewed in light of the financial pressures surrounding the increasing cost of living, the 2023-2024 pay award and the continuing uncertainties around future funding streams. Any change to these estimates could have a significant impact on the forecast budget deficit over the medium term.
- 8.18 A number of assumptions have been made with regards to the level of resources that will be available to the Council as detailed above. It is important to note that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities as the provisional settlement announced on 19 December was for one year only – 2023-2024, and whilst is provided some high level assumptions for 2024-2025, there still remains considerable uncertainty with regards to funding beyond 2023-2024. Appendix 2 provides details of the current assumptions

- 8.19 At the point that further information is known it will be incorporated into future reports to Councillors. The current assumptions in respect to grants and tax raised locally are detailed above. Any reduction in the Government's allocation of funding to the Council would have a significant detrimental impact and further increase the budget deficit forecast over the medium term, conversely any additional un-ringfenced funding would have a positive impact on the MTFs.
- 8.20 Taking this into account, the Council is now faced with finding further projected budget reductions estimated at £16.4 million in 2024-2025, rising to £22.9 million over the medium-term period to 2025-2026. Work to develop budget reduction and income generation proposals for 2024-2025 onwards in line with the Financial Strategy will continue.
- 8.21 It is proposed an update on progress on tackling the projected deficit is reported to Cabinet in July 2023.
- 8.22 It is important to note that the updated projected budget deficit assumes the achievement of budget reduction, income generation and efficiency proposals over the period from 2023-2024 to 2025-2026, however a number of these proposals are largely one-off in nature. Having identified budget reductions in the region of £240.0 million over the last thirteen years budget setting processes, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.

Table 6 – Draft Medium Term Financial Strategy 2023-2024 to 2025-2026

	2023-2024	2024-2025	2025-2026
	£000	£000	£000
Previous Years Net Budget brought forward	267,159	306,059	332,483
Increasing / (Decreasing) Cost Pressures			
- Pay Related Pressures	9,892	7,045	5,585
- Treasury Management	-	-	(500)
- Budget Growth	28,737	12,149	1,594
- Budget Reduction, Income Generation & Efficiency targets	(1,107)	7,230	(850)
Changes to Specific Grants	1,378	-	-
Net Budget (Before Use of Resources)	306,059	332,483	338,312
Projected Corporate Resources			
- Council Tax (including Adult Social Care precept)	(125,983)	(131,048)	(134,993)
- Business Rates (net of WMCA growth payment)	(75,144)	(76,652)	(78,091)
- Enterprise Zone Business Rates	(1,410)	(1,377)	(1,342)
- Section 31 Grant – business rates support	(26,328)	(26,328)	(26,328)
- Collection fund deficit/ (surplus) forecast (net of irrecoverable losses grant)	(3,253)	-	-
- Top Up Grant	(25,345)	(25,852)	(26,369)
- New Homes Bonus	(709)	-	-
- Services Grant	(3,094)	(3,094)	-
- Improved Better Care Fund	(14,761)	(14,761)	(14,761)
- Social Care Grants	(24,740)	(28,670)	(28,670)
- Adult Social Care Market Sustainability & Improvement Fund	(3,223)	(4,846)	(4,846)
- Adult Social Care Discharge Fund	(2,069)	(3,449)	-
Total projected resources	(306,059)	(316,077)	(315,400)
Projected Budget Annual Change in Budget Deficit / (Surplus)	-	16,406	6,506
Projected Cumulative Budget Deficit	-	16,406	22,912

9.0 Budget Risk

9.1 The table below provides a summary of the risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology. The overall level of risk associated with the Medium Term Financial Strategy to 2025-2026 is assessed as Red.

Table 7 – General Fund Budget Risks to 2025-2026

Risk	Description	Level of Risk
Medium Term Forecasting	Risks that might materialise as a result of the impact of interest rates, energy costs, non-pay inflation and pay awards, uptake of pension auto enrolment, and National Living Wage.	Red
Service Demands	Risks that might materialise as a result of demands for statutory services outstretching the available resources. This particularly applies to adults and childrens' social care.	Red
	Risks that might materialise as a result of demands for non-statutory services outstretching the available resources.	Amber
Identification of Budget Reductions	Risks that might materialise as a result of not identifying budget reductions due to limited opportunity to deliver efficiencies.	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 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	Risks that might materialise as a result of a multi-year funding settlement and reforms to Business Rates Retention and the Fair Funding Review.	Red

	<p>Risks that might materialise as a result of income being below budgeted levels, claw back of grant, or increased levels of bad debts.</p> <p>The risk of successful appeals against business rates.</p>	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 due to structural uncertainties including the impact of exiting the European Union.	Amber
	Risk that the cost pressures from the implementation of the policies outlined in the Adult Social Care Reform White paper are greater than Government Grant funding.	Red
	Risk of cost pressures as of result of specific short term grant funding not continuing – e.g. household support grant.	Red
	Risks that might materialise as a result of changes to Government policy including changes in VAT, taxation rules and economic measures.	Red

10.0 Update on Reserves

- 10.1 Due to the projected financial challenges facing the Council over the medium term, combined with the budget risks, reserves should only be called on in very specific circumstances and are not a viable funding option to reduce the projected budget deficit over either the short or longer term.
- 10.2 Reserves play a vital role in the financial sustainability of the Council. It is important to note that, the Council's General Fund Balance currently stands at £13.7 million, which is approximately 5% of the 2022-2023 net budget. This level of reserve is approximately 4.5% of the 2023-2024 net draft budget. In order to maintain a 5% reserve for next financial year, it is proposed that £1.6 million is transferred from the Budget Strategy Reserve. In addition, the Council holds specific reserves which are set aside to fund future planned expenditure. It is vital the Council continues to hold these reserves to

mitigate the risk of uncertainty of any potential future expenditure and to support the delivery of council priorities, therefore it is not an option to use these funds to meet the budget deficit

- 10.3 Emphasis continues to be placed on identifying budget reduction and income generation proposals to meet the forecast budget deficit over the medium term as detailed in Table 6 without calling on general reserves.
- 10.4 Specific reserves represent monies set aside by the Council to fund future expenditure plans. The Director of Finance (Section 151 Officer), will continue to review proposed levels of reserves, provisions and balances to ensure they are adequate in respect of the forthcoming financial year. Consideration will be given to the movement in the levels of reserves over the last few years, the anticipated future drawdown of specific reserves and the level of Corporate Specific Reserves as detailed below in addition to the General Fund Balance stated above). A Reserves Strategy will be included in the final budget report to Cabinet.
- 10.5 The table below details the level of the specific reserves held by the Council at 31 March 2022 and the anticipated balances at 31 March 2023, along with future commitments. In addition, there are other specific reserves which are administered by the Council but that have a specific criteria for allocation.

Table 8 – Total Specific Reserves

	Actual Balance as at 1 April 2022 £000	Forecast Net Use 2022-2023 £000	Forecast Balance as at 31 March 2023 £000	Future Commitments £000
Total	(56,315)	26,907	(29,408)	5,648

- 10.6 The main Corporate Reserves set out in the table below, and included in the overall total in the table above, include the reserves which are specifically set aside to manage risks and provide capacity for developments to enable financial sustainability.

Table 9 – Main Corporate Reserves

Corporate Reserves	Actual Balance as at 1 April 2022 £000	Forecast Net Use 2022-2023 £000	Forecast Balance as at 31 March 2023 £000	Future Commitments £000
Efficiency Reserve	(5,411)	274	(5,137)	-
Budget Strategy Reserve	(7,569)	-	(7,569)	-
Transformation Reserve	(2,631)	1,662	(969)	17
Budget Contingency Reserve	(7,073)	3,044	(4,029)	-

Corporate Reserves	Actual Balance as at 1 April 2022 £000	Forecast Net Use 2022-2023 £000	Forecast Balance as at 31 March 2023 £000	Future Commitments £000
Future Years Budget Strategy	(13,307)	8,307	(5,000)	5,000
Total	(35,991)	13,287	(22,704)	5,017

11.0 Evaluation of alternative options

11.1 In determining the proposed 2023-2024 Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026, consideration has been made to the deliverability of budget reduction and income generation proposals and budget pressures. If we were to not implement the budget strategy as proposed in this report, alternative options would need to be identified in order for the Council to set a balanced budget for 2023-2024.

12.0 Reasons for decisions

12.1 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.

13.0 Financial implications

13.1 The financial implications are discussed in the body of the report. [AS/3012023/K]

14.0 Legal implications

14.1 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 budget reduction proposals.

14.2 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.

14.3 This report also sets out the Council's Medium Term Financial Strategy. The Chief Financial officer has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.

14.4 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.

- 14.5 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).
- 14.6 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '...make a report ... if it appears to her 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.
- 14.7 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to her 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.
- 14.8 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2023-2024.
- 14.9 It is the responsibility of members to ensure the Council sets a balanced budget for the forthcoming year. In setting such a budget members and officers of the council have a legal requirement to ensure it is balanced in a manner which reflects the needs of both current and future taxpayers in discharging these responsibilities. In essence this is a direct reference to ensure that council sets a financially sustainable budget which is mindful of the long-term consequences of any short-term decisions. [DP/30312023/A]
- 15.0 Equalities implications**
- 15.1 The council's annual budget and medium term financial strategy supports a range of services designed to meet key equalities objectives.
- 15.2 It is important to note, that this report provides a cumulative equality analysis response to the council's efficiency proposals set out within this report.

- 15.3 In the body of the report, we refer to efficiency proposals that are being put forward for approval as part of the Council's MTFS. Those efficiency proposals are one-off and in the main linked to the one-off use of funding, including reserves and grants, or forecast in-year underspends, and therefore have no equality impact on citizens or the communities that the Council serves.
- 15.4 In conclusion, the council continues to make every effort to protect the most vulnerable as far as possible and respond to its duties under the Equality Act 2010. However, this strategic EIA recognises the significant challenge which the financial position presents for Wolverhampton. We will maintain a strong commitment to equality and ensure that EIA's undertaken at each savings proposal helps us to arrive at an informed decisions and to make the best judgement about how to target our resources effectively and fairly.
- 15.5 Councillors must continue to have due regard to the public sector equality duty (Section 149 of the Equality Act 2010) when making budget decisions. By considering the equalities evidence contained in the analysis above, in tandem with this report, Councillors will be in a position to comply with the requirements of the Duty and Act as well as their wider responsibilities in terms of setting a budget.

16.0 All other Implications

- 16.1 The Covid implications are detailed in the body of the report.
- 16.2 Any human resource implications will be managed in accordance with the Council's HR policies and processes.

17.0 Schedule of background papers

2022-2023 Budget and Medium Term Financial Strategy 2022-2023 to 2024-2025, report to Cabinet on 23 February 2022 and Full Council 2 March 2022

Performance, Budget Monitoring and Budget Update 2022-2023, report to Cabinet on 17 November 2022

Draft Budget and Medium Term Financial Strategy 2023-2024 to 2025-2026, report to Cabinet on 19 October 2022

Council Tax Base and Business Rates (NDR) Net Rate Yield 2023-2024, report to Cabinet on 18 January 2023

Collection Fund Estimated Outturn 2022-2023, report to Cabinet on 18 January 2023

Minutes of scrutiny panels

Draft budget book 2023-2024

18.0 Appendices

Appendix 1 - –Key Assumptions for Budget Growth and Budget Reduction, Income Generation and Efficiency Targets

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

Appendix 2 – Key Assumptions on Corporate Resources

Appendix 3 - Budget Reduction, Income Generation and Efficiency Targets

Appendix 4 - Draft budget 2023-2024 by Service