Agenda item 12

Cabinet – 14 February 2018

Corporate Budget Plan 2017/18 to 2020/21 and Treasury Management and Investment Strategy 2018/19 Onwards

Portfolio: Councillor S. Coughlan – Leader of the Council (Lead Portfolio)

Related Portfolios: All

Service: Finance – council wide

Wards: All

Key decision: Yes

Forward plan: Yes

1. Summary

1.1. Appended (Appendix 2) to this report for Cabinet approval and recommendation to Council are:

- **Part 1** - The Revenue and Capital Corporate Budget Plan; comprising the final revenue and capital budget following consideration of the proposals by overview and scrutiny committees and ongoing public consultation.

- **Part 2** - Treasury Management and Investment Strategy as required by the CIPFA Code of Practice. It includes details on the Prudential Code Indicators (PCIs) for the next three years and asks Cabinet to approve them and recommend adoption of these to full Council. The Strategy both complies with the Local Government Act 2003 and also provides an additional framework over and above the statutory minimum for monitoring performance.

2. Recommendations

2.1 Cabinet is asked to note:

- That at the time of despatch of this report, the precepting authorities (fire and police) had not formally notified the authority of their final council tax precept levels. (The council has been advised that they will be approved following meetings scheduled for early to mid February, final figures will therefore be provided prior to or at the Council meeting of 28 February 2018).

- That at the time of despatch of this report, the levy authorities (Environment Agency and West Midlands Combined Authority (Transport Levy)) had not formally notified the authority of their final demand. Current estimates have been used for both the Environment Agency and Transport Levy based on informal communication, but these are subject to formal approval. (The final levies are expected to be approved early February, and will be included within the final papers to Council).

- That the council tax base, set by the Chief Finance Officer, under officer delegations, is 69,742.96.

- The feedback from Overview and Scrutiny Committees on the draft capital programme and revenue budget and responses to recommendations, as set out in Appendix 1.

- That Members must have due regard to consultation feedback and the public sector equality duty (section 149 of the equality act 2010) when making budget decisions.

2.2 Cabinet is asked to approve:

a) Policy service changes as set out in section 13, table 1 of this report, and instruct executive directors to implement these.

b) The allocation of revenue resources for 2018/19 as set out in Appendix 2: Part 1 "The Revenue and Capital Corporate Budget Plan", and delegate authority to the relevant executive directors to implement the 2018/19 savings.

c) That delegated authority be given to the Chief Finance Officer to make any necessary amendments, in consultation with the Leader (portfolio holder for finance), to take account of the final levies and precepts; changes required arising from the final Settlement; final grant allocations and final technical guidance or legislation on the budget, and to make any necessary amendments to the statutory determinations and council tax bands to take account of those changes and the resulting final analysis of the budget and for these amendments to be submitted and therefore recommended to Council at its meeting on 28 February 2018.

d) That delegated authority be given to the Leader of the Council, in consultation with the Chief Finance Officer and Chief Executive, to agree the council's contribution to the West Midlands Combined Authority.

e) The leasing programme set out at 2.3.2 and delegate authority for approval of in year expenditure to the Head of Finance (up to a cumulative value of £500k) and the Chief Finance Officer (above £500k).

2.3 Cabinet is asked to approve <u>and recommend to Council</u>, subject to receipt of final precepts and levies, receipt of the final settlement, technical/legislative guidance and final specific grant allocations (*substitute figures and resolution to be provided to Council by the Chief Finance Officer to take account of any changes arising from these*):

2.3.1 *Revenue*

a) The allocation of revenue resources for 2018/19 as set out in Appendix 2: Part 1 "The Revenue and Capital Budget Plan".

b) A Walsall Council net council tax requirement for 2018/19 of £114.99m and a 4.99% increase in council tax.

c) That the recommendations of the S151 Officer (Chief Finance Officer) in respect of the robustness of the estimates made for the purposes of the budget calculations and the adequacy of reserves **be approved**, including the levels of central contingency and an opening general reserve of not less than £14.6m, as set out in **Annex 9** of the Budget Plan**.**

d) The (estimated) levies below for outside bodies and Cabinet **approve** that the final figures **be substituted** for these provisional ones once they are available at the Council meeting on 28 February 2018. (An estimate has been used within this report based on informal notification from the authorities).

LEVY	**AMOUNT (£)**
West Midlands Combined Authority Transport Levy	**11,160,595**
Environment agency	**79,939**

e) The following statutory determinations (references are to the Local Government Finance Act, 1992 as amended), and subject to any final changes arising from receipt of final precepts and levies, receipt of the final Settlement, technical/legislative guidance and final specific grant allocations, **and Cabinet approve that these will be substituted** at the Council meeting on 28 February 2018 for the final figures once received:

I. **£613,372,896** being the aggregate gross expenditure, which the council estimates for the items set out in Section 31A(2) (a) to (f) of the Act.

II. **£498,386,980** being the aggregate income which the council estimates for the items set out in Section 31A(3) (a) to (d) of the Act.

III. **£114,985,916** being the amount, by which the aggregate at (e) (I) above exceeds the aggregate at (e) (II), calculated by the council in accordance with Section 31A(4) of the Act, as its council tax requirement for the year.

IV. **£1,648.71** being the amount at (e) (III) above**,** divided by the council tax base of 69,742.96, calculated by the council in accordance with Section 31B of the Act, as the basic amount of its council tax for the year (average council tax at band D).

V. <u>Valuation bands</u>
Being amounts given by multiplying the amount at (e) (IV) above by the number which, in the proportion set out in Section 5 (1) of the Local Government Act 1992, is applicable to dwellings listed in valuation band D, calculated by the council in accordance with Section 30 and 36 of the Act as

the amounts to be taken into account for the year in respect of categories of dwelling listed in different valuation bands.

A	B	C	D
1,099.14	1,282.33	1,465.52	1,648.71
E	**F**	**G**	**H**
2,015.09	2,381.47	2,747.85	3,297.42

f) The draft precept from the Fire and Rescue Authority and the Police and Crime Commissioner, issued to the Council in accordance with Section 40 of the Local Government Finance Act, 1992, for each of the categories of dwelling shown below and Cabinet **approve** that the final figures **be substituted** once they are available at the Council meeting on 28 February 2018.

PRECEPTING AUTHORITY	VALUATION BANDS			
Police And Crime Commissioner	**A**	**B**	**C**	**D**
	85.70	99.98	114.27	128.55
	E	**F**	**G**	**H**
	157.12	185.68	214.25	257.10
Fire & Rescue	**A**	**B**	**C**	**D**
	39.23	45.77	52.30	58.84
	E	**F**	**G**	**H**
	71.92	84.99	98.07	117.68

g) That having calculated the aggregate in each case of the amounts at (e) (v) and (f) above, the Council, in accordance with Section 30 (2) of the Local Government Finance Act 1992, hereby sets the amounts of council tax for 2018/19 for each of the categories of dwellings shown below and Cabinet **approve** that the final figures **be substituted** once the final precepts are available at the Council meeting on 28 February 2018.

A	B	C	D
1,224.07	1,428.08	1,632.09	1,836.10
E	**F**	**G**	**H**
2,244.13	2,652.14	3,060.17	3,672.20

h) That notice **be given** of the council tax within twenty one days of it being set by publishing details of the same in the “Walsall Advertiser” newspaper circulating in the Authority’s area.

i) That the Chief Financial Officer **be instructed** to take all necessary action in relation to council tax, community charge and national non-domestic rates, including, where appropriate, the signing of all documents, billing, the giving of notices and the taking of necessary steps to ensure collection thereof.

j) That the Chief Finance Officer **be given delegated authority** to make transfers to and from reserves in order to ensure that reserves are maintained as necessary and in particular, adjusted when reserves are no longer required, or need to be replenished.

k) That, pursuant to Section 52ZB and 52ZC of the Local Government Finance Act 1992, the relevant basic amount of council tax for the Council is not excessive in relation to determining whether a referendum is required.

2.3.2 *<u>Capital</u>*

a) The allocation of capital expenditure plans as set out in Appendix 2: Part 1 “The Revenue and Capital Budget Plan”.

b) That the capital and leasing programme set out in the following tables **be approved** bearing in mind the principle that unless affordable from within current resources, specific projects funded by borrowing will not be commenced until a payback agreement is in place. Schemes funded from grant will commence when final allocations are published. Reserve list items will only commence should funding become available during the financial year.

c) That the Chief Finance Officer be **given delegated authority** to determine how each source of finance is used to fund the overall capital programme and to alter the overall mix of financing as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council.

d) That the Chief Finance Officer, in consultation with the Leader (portfolio holder for finance), be **given delegated authority** to release capital resources held back for any contingent items that may arise (earmarked capital receipts for essential or emergency spend), and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for government or other funding).

e) The Flexible Use of Capital Receipts Strategy set out in **Annex 8** of the Budget Plan including the use of new capital receipts from April 2018 to March 2019 to fund revenue transformational projects as detailed, subject to sufficient receipts being available to cover planned capital programme commitments.

f) That the Chief Finance Officer, in consultation with the Leader (portfolio holder for finance), **be given delegated authority** to allocate new capital receipts to support revenue costs of transformation projects which fulfil the requirements of the ‘flexible use of capital receipts strategy’, at set out in **Annex 8** of the Budget Plan.

CAPITAL PROGRAMME – MAINSTREAM (COUNCIL FUNDED) SCHEMES				
SCHEME	Estimated Value £			
	2018/19	2019/20	2020/21	2021/22
Ongoing implications of prior year approvals (new spend)				
Broadway West playing fields – refurbish/improve existing changing room provision – match funding required as below	100,000			
Walsall Town Centre Public Realm improvements / Market	1,000,000	1,000,000	1,500,000	
Migration of existing Urban Traffic Control analogue communication network	185,000			
Traffic signals – replacement of obsolete equipment	200,000	200,000	200,000	200,000
Provision of community dropped crossings across footways	20,000	20,000	20,000	20,000
Library redesign including relocation of Local History Centre to Central Library	2,437,000			
Essential Microsoft upgrades and foundation for Office 365	225,000			
Procurement of system for Human Resources management & Oracle financials	2,100,000	1,400,000		
Service improvement for single mobile device management solution	51,000	51,000		
Civic Centre heating	600,000			
Redesign of school kitchens to meet health & safety, food and fire regulations	250,000			
CCTV upgrade to equipment	250,000			
Mosaic Phase 3 implementation of social care case management system	223,085			
Rolling Programme Schemes				
Memorial safety in Walsall cemeteries	40,000	40,000	40,000	40,000
Highway Maintenance Programme	2,800,000	2,800,000	2,800,000	2,800,000
Preventative / Aids and Adaptations and Supporting Independence	750,000	750,000	750,000	750,000
Health Through Warmth – Safety Net support	75,000	75,000	75,000	75,000
Funding to support essential works including Health & Safety	750,000	750,000	750,000	750,000
New Capital Bids				
Supporting transformation – looked after children / out of borough placements	150,000	150,000	150,000	
Supporting transformation – looked after children small residential home	60,000	60,000	60,000	
Pinfold Centre – relocation of Children's Services Independent Review and Child Protection conference service from Hollies	684,630			
Corporate parenting contact and assessment hub – relocation of 4 into 1	697,571			
Replacement of obsolete analogue weather stations used to provide winter service to the highway network	40,000			
Open water safety schemes - signage	73,650	2,000	5,000	2,000

CAPITAL PROGRAMME – MAINSTREAM (COUNCIL FUNDED) SCHEMES - Continued				
SCHEME	**Estimated Value £**			
	2018/19	**2019/20**	**2020/21**	**2021/22**
Walsall Arboretum Extension and Country Park infrastructure improvements		190,000		
Oak Park Active Living second artificial grass pitch (match funding as below)	150,000			
Bloxwich Active Living Centre – interactive aquatics play	30,000			
Mobile technology implementation for Building Control	11,500			
Streetly Crematorium installation of air conditioning units and refurbishment of toilets		215,351		
Replacement of obsolete fixed site speed enforcement camera infrastructure	175,000			
Promotion of community health and safety	120,000	120,000	120,000	120,000
M6 Junction 10 road improvements – match funded to grant			650,000	
Aldridge Manor House – development into a commercial opportunity	4,766,000	83,000		
Walsall Council House - modern secure reception	106,000			
Maintaining a safe and secure environment – review of ICT infrastructure including moving data centre and some services to Cloud	5,901,000	2,949,000		
Darlaston Town Hall – asbestos and fire safety works	99,900			
Walsall Town Hall – roofing repair system	61,500			
High level parapet wall – Sneyd Vernon Way	94,350			
Implementing the ICT strategy to support the Council's transformation programme	455,000			
Willenhall Lane travellers site – redesign to create 2 additional plots	85,000			
Adult Social Care and Children's Services mobile working	753,537			
District Town Centre Public Realm improvements	4,000,000			
Total	**30,570,723**	**10,855,351**	**7,120,000**	**4,757,000**

CAPITAL PROGRAMME 2018/19 - SCHEMES FUNDED FROM EXTERNAL SOURCES	Estimated Value £
Basic Need school allocation (grant)	21,616,745
Devolved Formula Capital school allocation (grant)	534,800
Capital Maintenance school allocation (grant)	2,222,387
Special provision fund – provision for pupils with special educational needs (grant)	319,229
Broadway West playing fields (match funding as above from other third party)	150,000
Oak Park Active Living Centre (match funding as above from other third party)	300,000
M6 junction 10 road improvements (grant)	14,260,000
Highways Maintenance DfT Challenge Fund (grant)	2,348,000
West Midlands Strategic Transport Plan (STP) (grant)	1,283,000
Growth Deal – creation of skills, connections for manufacturing (grant)	19,527,429
National Productivity Investment Fund Programme for junction and cycling improvements (70% grant, 15% other third party). Further local contribution from Strategic Transport Plan and council public realm allocation.	2,601,500
Walsall Memorial Park artwork (other third party)	1,200
Disabled Facilities Grant (grant)	2,145,000
Integrated Community Equipment Store – purchase of specialised equipment (grant)	750,000
Total	**68,059,290**

CAPITAL PROGRAMME RESERVE LIST 2018/19 – MAINSTREAM (COUNCIL FUNDED) SCHEMES	Estimated Value £
Further provision for Preventative / Aids and Adaptations and Supporting Independence	750,000
Further provision for Health Through Warmth – tackling fuel poverty	75,000
Work required following investigation on drainage at North Walsall Cemetery	100,000
Hatherton Road multi-storey car park – development of demolition plan to address structural repair issues	525,000
Total	**1,450,000**

LEASING PROGRAMME 2018/19	Expenditure £
Refuse vehicles	481,000
Light commercial vehicles	443,000
Tractors and agricultural machinery	198,000
Welfare vehicles	26,000
Equipment	228,000
Total	**1,376,000**

2.3.3 Treasury Management

a) Appendix 2 – Part 2 – The Treasury Management and Investment Strategy 2018/19 onwards, including the council's borrowing requirement, borrowing limits, and the adoption of the prudential indicators**, be approved**.

b) That decisions to effect movements between conventional borrowing and other long term liabilities, such as leases, **be delegated** to the Chief Financial Officer.

c) That decisions to use capital receipts or borrowing within the framework of approved prudential indicators **be delegated** to the Chief Financial Officer.

3. Report detail

3.1 The council's budget is a financial representation of the organisation's plans. It is constructed as an integral part of the council's planning processes and aligned to its priorities and objectives. The attached budget plan at **Appendix 2** sets out the revenue and capital plans for service delivery for 2018/19 and beyond.

4. Council Corporate Plan priorities

4.1 The budget is the financial plan supporting delivery of the organisations key objectives and priorities. The budget process is a four yearly cycle, updated annually, aiming to support delivery of council priorities within the available resources. It aims to achieve this through the delivery of efficiencies, income reviews and service reviews and redesign to redirect existing and reducing resources to areas of high council priority. This budget has been prepared using the council's high level purpose and priorities as outlined in the Council's Corporate Plan.

5. Risk management

5.1 Budget Plan: The council reviews corporate financial planning and budget principles in accordance with the medium term financial strategy (MTFS). The budget setting process includes a comprehensive financial risk assessment to determine key risks and their impact on the budget. Services undertake risk assessments of their services and budgets by identifying risk factors, potential changes to service delivery and funding streams. This ensures that adequate budgetary provision is available to cover unforeseen future events. This successful approach is now embedded and is used to inform the level of earmarked and general reserves.

5.2 The identification of risks, and level of reserves, is referred to in the CFO statement at **Annex 9** of the Budget Plan. It is, however, unlikely that all risks identified will arise, however new risks may also emerge. Managers are required to deliver services within their approved budget. Any known changes in service demand or costs arising from legislative or government demands are identified and dealt with within the overall revenue budget. The level of reserves should be sufficient to cover all but the most unusual of events. Any in-year use of general reserves may require replenishment to ensure the opening level of reserves is as required by the MTFS.

6. Financial implications

6.1 The council must set a balanced budget to meet its legal requirements as set out under legal implications. This report proposes cash limits for services to deliver the Council's key priorities.

7. Legal implications

7.1 The legal duty for a council's finances falls within s151 of the Local Government Act 1972. Arrangements for the proper administration of the council's affairs is secured by the s151 Officer (the Chief Finance Officer).

7.2 Cabinet recommend the revenue budget and capital programme to Council. Councils are responsible for making a calculation in accordance with sections 31A to 37 of the Local Government Finance Act 1992 (as amended). This includes the statutory determinations (aggregate gross expenditure, gross income, council tax requirement for the year and setting the council tax for a financial year).

7.3 Under the Local Government Act 2003 (s25), an authority must set a council tax and balanced budget, giving 14 days' notice of the council tax level prior to the date of billing. The Council must set a budget before 11 March of each year. This will include the S151 Officer's report that deals with the robustness of the budget and the adequacy of the reserves for which the budget provides, together with an assessment of risk. This is provided at **Annex 9** of the Budget Plan.

7.4 The Local Government Act 2003 and supporting Regulations require the Council to have regard to the Prudential Code and to set prudential indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an annual investment strategy (as required by investment guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This is provided at **Part 2** of the Budget Plan.

7.5 In recent years central Government has capped the level of council tax rises. For 2018/19, the Government have announced that local authorities will again need to seek approval of their electorate via a local referendum if they propose to increase council tax levels by 6% or above as confirmed as part of the local government settlement on 6 February 2018, inclusive of the 3% ring-fenced for Adult Social Care (on the assumption that the overall 6% precept for Adult Social Care is not exceeded over the three years from 2017/18 to 2019/20).

7.6 Section 138 of the Local Government and Public involvement in Health Act 2007 placed a general duty on every local authority in England to take such steps as it considers appropriate to secure that representatives of local persons (or of local persons of a particular description) are involved in the exercise of any of its functions, among other things by being consulted about the exercise of the function. The duty to consult that is imposed on Councils comes from two other sources:

- Specific legislation, such as the education act duties to consult on certain services etc., and,
- The common law duty, which is well established in law.

7.7 Our approach to consultation was reported to Cabinet in October and December 2016. An update on consultation is provided within the main text of this report.

7.8 The 2010 Equality Act, whilst not imposing a specific duty to consult, lays a requirement to have due regard to the equality impact when exercising its function. As a public body, the Council is required to comply with the Public Sector Equality Duty (PSED), as set out in the Equality Act, 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. Failure to meet these requirements may result in the council being exposed to costly, time-consuming and reputation-damaging legal challenges.

7.9 An Equality Impact Assessment (EqIA) is the chosen procedure, by the Council, for checking the lawfulness of decisions in relation to the impact on people with certain characteristics protected by the Equality Act 2010. Cabinet and Council members have previously been issued with guidance on their responsibilities in relation to setting a budget and also under the PSED.

7.10 The drafting of saving proposals included consideration of legislative and other requirements, duties or obligations imposed by statute, secondary legislation or guidance upon the council, specifically in the context of proposals which involved reductions or cessation of service. Policy papers previously reported in October 2016 set out relevant duties. No new policy savings have been proposed for 2018/19.

8. Property implications

8.1 Any direct property implications as a result of service redesign and revenue savings proposals are assessed as part of the budget process.

9. Health and Wellbeing implications

9.1 Any direct health and wellbeing implications as a result of service redesign and revenue savings proposals are assessed as part of the budget process.

10. Staffing implications

10.1 Staffing implications are assessed and included as part of the budget process. There will be some staffing implications arising from this report. There has been positive and meaningful consultation with both employees and the trade unions. The contribution of the trade unions will be important in the council achieving its key aims and objectives particularly in these challenging times. Officers and members will continue to consult widely with them in all aspects of service design and delivery.

10.2 Staff affected by the proposals in this budget will be supported as appropriate throughout the process and the number of compulsory redundancies will be minimised wherever possible. Redundancy headcount has reduced from 136 in October 2017 to 122 in January 2018 (full time equivalent posts are now down to 101 from 114). Work continues to reduce these further.

11. Reducing Inequalities

11.1 EqIAs are undertaken on proposals as they are developed and reported to Cabinet to allow them to consider any revisions required to the final budget for recommendation to Council.

11.2 Assessing the impact of proposed changes to policies, procedures, services and organisational change is not just something the law requires; it is a positive opportunity for the council to ensure it makes better decisions, based on robust evidence.

11.3 Failure to meet the requirements in the Public Sector Equality Duty (PSED) may result in the council being exposed to costly, time-consuming and reputation-damaging legal challenges. An Equality Impact Assessment (EqIA) is the chosen procedure for checking lawfulness of decisions in relation to the impact on people with certain characteristics protected by the Equality Act 2010. These are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion and belief
- Sex
- Sexual orientation

11.4 <u>Information required in the EqIA</u>

An EqIA must contain relevant data and sufficient analysis to enable members to understand the equality implications of a proposal and any alternative options. It must have satisfactory and appropriate information and be presented to decision makers in time for them to understand the effects of the proposal on people with protected characteristics. It must also;

- Consider whether action can be taken to mitigate any identified potential adverse impacts. Some proposals will affect everyone, but others will affect people from different equality groups;
- Consider whether action can be taken to enable the policy or decision to advance equality of opportunity for people who share a relevant protected characteristic;
- Request further research, consultation, or action is necessary.

11.5 <u>What course of action does the EqIA suggest?</u>

An EqIA should clearly identify the option(s) chosen and their potential impacts as well as document the reasons for this decision. There are four possible outcomes:

A. No major change required.

When no adverse impact is identified and all opportunities to promote equality have been taken. To make this judgement, concrete evidence must be provided that people with protected equality characteristics (all groups) will not be affected adversely.

B. Adjustments are needed to mitigate adverse impact and to better promote equality.

A plan is required which must include specific deadlines for actions to be completed in order for the decision to be implemented, e.g. alternative ways of providing the service, signposting to other providers and ongoing monitoring of the impact. If there are further concerns following adjustments, the decision must be reviewed and action taken.

C. Continue despite possible adverse impact.

Compelling reasons will be needed and mitigating actions are required to minimise adverse impact. An action plan is required which must include specific deadlines by which mitigating actions need to be completed in order for the decision to be implemented, e.g. alternative ways of providing the service, signposting to other providers and ongoing monitoring of the impact. If there are further concerns following adjustments, the decision must be reviewed and action taken.

D. Stop and rethink the proposal.

When an EqIA shows actual or potential unlawful discrimination and needs to be reviewed immediately.

11.6 <u>Evaluation of Equality Impact Assessments</u>

By way of a reminder, Cabinet, on 26 October 2016, agreed a summary of revenue policy savings for consultation. All managers responsible for policy proposals, and operational proposals with the confirmed requirement for Equality Impact Assessments (EqIAs), were requested to carry out EqIAs.

82 policy proposals for 2017/18 and 2018/19 were considered for their impact on protected characteristic groups. Each of the proposals had an equality screening and 34 proposals were required to undergo Policies, Procedures and Services (PPS) EqIAs. Following consultation and feedback analysis, a number of proposals were reviewed or subsequently removed. The table below shows the outcomes for the 82 proposals.

Ref	Decision	Number of EqIAs
A	No major change required - implement	13
B	Adjustments needed to mitigate adverse impact and to better promote equality – adjustments implemented (4 withdrawn)	12
C	Continue despite possible adverse impact – monitoring undertaken – 2 were subsequently withdrawn	5
D	Stop and rethink the proposal - all 3 withdrawn	3
	Other decisions (e.g. sub-proposals or delayed) – elements withdrawn and adjustments and monitoring put in place for some elements of this saving (77 – cessation of some aspects of adult universal services)	1
=	*Proposals subject to an EqIA*	*34*
	Proposals not subject to an EqIA – decision to implement had previously been made and an EqIA undertaken at that time (4), EqIA not yet due (12) as future years proposals or no EqIA was required (32)	*48*
	Total	**82**

Where the outcomes showed B or C, the action plan had to show the adjustments needed, how to reduce the impact or justify why it should continue despite the impact. Where the outcomes showed D, these proposals were immediately put on hold. All EqIAs that resulted in B or C outcomes were further reviewed by the Equality and Diversity team and considered by Cabinet members, giving opportunity to comment and, where applicable, amend the budget in terms of its fairness, equality duties and objectives, as well as future shaping of the services. Proposals have been monitored and managed following implementation.

The equality impact assessment summary and individual assessments presented to Cabinet as part of the Corporate Budget Plan 2016/17-2019/20 can be found at:

https://cmispublic.walsall.gov.uk/cmis/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2342/Committee/328/Default.aspx

11.7 2018/19 Policy Proposals

There are no new policy proposals for 2018/19 requiring an EqIA. Two 2018/19 proposals are subject to review and are requested to be deferred until 2019/20 to complete those reviews. Equality impact assessments will be undertaken as part of those reviews. These are saving 2 – charging for Appointeeships (£15k), and saving 11 – review and reduce children’s services contact service (£64k).

11.8 2019/20 Policy Proposals

A number of policy proposals for implementation in 2019/20 will require further review during 2018 in relation to equality impact assessment prior to a final decision on implementation. 2019/20 proposals have been reviewed, with an initial assessment as follows:

Saving reference	**Proposal**	**EqIA Decision**	**Update/ Comments**
Children's Services			
6 - £200k	Review demand for SEN transport. More provision of Special School Places will reduce transport and existing travel costs	Further analysis required during 2018.	Following extensive consultation with service users throughout 2016 and spring 2017, a new home to school transport policy was implemented from September 2017. From 1 January 2018 the new commissioned Transport Framework is in place to improve efficiencies. However, new demand for school transport continues to rise into 2017/ 2018. New additional local SEN school placements will be available as of 1 September 2018, but actual savings as a result of this are to be determined. There continues to be an approx. 12% annual increase in overall eligible transport.
Economy and Environment			
16 - £145k	Reduction in public health investment in lifestyle service	No EqIA required	N/A
19 - £137.8k	Review HWRC site and Transfer Station provision	No EqIA required	N/A
24 - £274k	Further review of waste collection	Further analysis required	No EqIA was originally required for this proposal. However, an assessment will be undertaken in 2018 to determine if one will be required.
44 - £400k	Re-commissioning of 0-5 services	No EqIA required as decision made in previous years	N/A
45 - £250k	Reduce scope of healthy lifestyles services	Further analysis required	Public Health commissioners will be working with the provider agencies and Clean and Green Services during 2018/19 to achieve the saving through service re-configuration and attention will be paid to the impact these changes will have upon groups with protected characteristics.

Saving reference	Proposal	EqIA Decision	Update/ Comments
48 - £295k	Cease falls prevention service	Further analysis required	Public Health will **c**onsult with partner agencies, service providers and service users during 2018 to understand the impact of ceasing this service will have upon service users with protected characteristics.
49 - £500k	Reduce capacity in sexual health services	Further analysis required	Public Health commissioners are actively working with the service provider to identify how the savings can be achieved through changes to service accommodation, service operations and working with voluntary sector partners. Service user feedback is continually sought as service changes are being implemented. Ongoing consultation during 2018 will reveal how any proposed changes could impact upon service users with protected characteristics.
55 - £64k	Reduction in the maintenance of road signs	No EqIA required	Initial discussions in 2017/18 determined that no EqIA was necessary. This will be reviewed during 2018.
56 - £72k	Reduced maintenance of road drainage following pilot	No EqIA required	
57 - £31.5k	Reduced maintenance road markings	No EqIA required	
73 - £500k	Review of Investment Portfolio	No EqIA required	The requirement for an EqIA will be reviewed as this develops as part of the "Transforming Our Assets" Transformation Theme.
Resources and Transformation			
28 - £168.8k	Efficiencies to be realised from transformation theme "enabling a vibrant and sustainable voluntary and community sector"	Further analysis required	Future funding of One Walsall discussed at the Funders Board on 12 January 2018. One Walsall to be tasked with delivering an options paper, including an EqIA.
Corporate			
£5m	Channel Shift	Further analysis required	The requirement for an EqIA will be reviewed as this Transformation Theme develops.

11.9 Operational Savings 2018/19+

In addition to the above, a number of operational savings will require Organisational Change (OC) EqIA's to be carried out, which will also be monitored and reported on, along with any adjustments made for potential adverse impact on protected characteristic groups.

11.10 Monitoring of Equality Impact 2017/18+

A report was taken to Corporate Management Team (CMT) on 4 July 2017 regarding the monitoring of EqIAs. In previous years the monitoring of budget proposal EqIAs was reported to the Corporate Equality Group (CEG). Given the higher volume of EqIAs in last years' round of budget planning, CMT approved the monitoring of EqIAs considered a higher risk at CMT level on a more frequent (quarterly) basis. This has enabled a more effective involvement from Executive Directors, which was not always possible at CEG level. Reports continue to be presented at CEG for update and action. The key EqIAs approved were;

Implementation Date	Ref No	Proposal
2017/18 & 2018/19	77	Cessation of Adult Social Care Universal Services
2017/18 & 2018/19	78	Review of respite and day services
2017/18	75	Closure of Banking Hall in Civic Centre
2017/18 – 2019/20	4/13	Review and develop children centre service as part of a 0-19 Early Help locality model Review and reduce Youth Services and align functions to the 0-19 Early Help locality model
2017/18 – 2019/20	9/10	Reduction of spend on looked-after children including those in out-of-borough placements Review and reduce LAC numbers and associated costs
2017/18	32/33/34	Option for redesign of library service
2017/18 – 2019/20	41	Reduction in Public Health investment in drug and alcohol treatment services
2017/18	46	Cease all Public Health investment in adult weight management programmes
2017/18 & 2018/19	47	Reduction of Public Health stop smoking services

Whilst the remaining EqIAs continued to be monitored locally, those considered to be the higher risk have more detailed scrutiny at a higher level. The information obtained is presented below.

Adult Social Care

77 - Cessation of Adult Social Care Universal Services

In this proposal, the service was expected to monitor proposals and the adverse effects on people with protected characteristics, offer Blue badge/short term wheelchair services from other parts of the council, amalgamate empowerment, engagement, advocacy and befriending services into one contract, support the voluntary sector and provide early intervention and prevention to support all client groups to live independently and to have active, prosperous and healthy lives.

In response to these challenges, the service has established procedures to monitor all respite care and day care users at Fallings Heath with governance and support through the programme office, put in place the amalgamation of Assessor services in the Disability Hub and Admin in the Civic Centre as well as establishing new engagement contracts and worked with One Walsall to engage with the voluntary sector in supporting individual and joint bids for Seed funding for community associations to engage with and develop community services for adults with learning disabilities. Finally, the integrated health and care locality teams have coordinated early intervention and prevention across care settings. Teams are now operating on a Locality Model.

78 - Review of respite and day services

This proposal provided the service with key equality actions, namely providing a steering group to look at potential changes, the checking of eligibility for social care day opportunity services at Goscote and Falling Heath residential homes (and, in the case of the latter, to identify alternative respite options) and to provide users and carers with clear outcomes for the future through a needs review.

A steering group, chaired by the Lead Commissioner, has been established to implement changes. Consultation and reviews into residential care and with users were commissioned and completed, with three new providers in place to deliver respite care and a further provider being added in January 2018, following completion of registration.

Children’s Services

4 and 13 - Review and develop children centre service as part of a 0-19 Early Help locality model and Review and reduce Youth Services and align functions to the 0-19 Early Help locality model

These proposals had equality actions such as ensuring monitoring the level of engagement of service users with protected characteristics, increasing the delivery of work programmes for children with disabilities per locality, working with One Walsall to identify and secure alternative funding opportunities to secure continuation of youth provision and continue to promote the positive impact of Play and Stay delivered by schools to improve school readiness and building early partnership relationships with parents.

In response to these actions, the level of engagement of service users with protected characteristics is part of the Early Help Performance Score card. Where there is a dip in the level of engagement work is undertaken to understand the issue and actions taken to mitigate against any adverse impact to those groups (e.g. targeted events in particular localities, work with voluntary sector to raise awareness around access to services, etc). In addition, Locality teams are supporting more children with a disability in a targeted one to one offer and work continues with One Walsall to identify external funding for youth work – One provider has been successful in securing three year funding through Big Lottery to continue youth work. There are also currently 83 play and stay sessions available which are published through the early help website and through relevant professionals.

9 and 10 – Reduction of spend on looked-after children (LAC) including those in out-of-borough placements and Review and Reduce LAC numbers and associated costs

These proposals included actions around the recruitment of a project lead to oversee the tracking of LAC and out of borough placements, exploring alternative in house provision, establishing a project group to scope a partnership model of working with vulnerable children to safely reduce need for looked after children, recruiting and retaining social workers and reviewing foster care training.

In response, a dedicated project lead was appointed in December 2016, increasing oversight of all looked after children in the system. The External Placement Panel regularly reviews children placed in residential homes out of borough with targeted action to consider alternative options to either return them back to internal residential provision or step down to fostering or supported accommodation provision, in line with their care plans. The service has established a two bed Residential House “The Limes”, which is currently waiting for Ofsted registration. A project group has been established to scope partnership working with vulnerable children to safely reduce need for LAC. There has been a regulator meeting with the training steering group and the service has recruited 31 additional social work staff. In addition, the service has seen the establishment of a Fostering Steering group and proposals are being constantly monitored.

Economy and Environment

32/33/34 - Option for redesign of library service

Actions included the maintenance of a service, keeping a service available within approximately 2 miles of every household in the Borough, establishing effective communication with residents and people with protected characteristics (including providing accessible information) and supporting them during the implementation of the new delivery model (including the mobile library service), providing online accessibility, moving the Local History Centre and Archive service to the town centre “Hub” and refocusing the Leather Museum on being more commercially minded.

Responses to these actions have been positive. The new model of delivery, (including the installation of additional pcs), incorporates Walsall Central Library, five District Libraries and Streetly Community Library augmented by volunteers. All residents are within a two mile radius of a local Library with the exception of a small area alongside the A34 near the Birmingham boundary. Communications were proactive during the delivery phase up to 30 June 2017 when the nine libraries closed. Recruitment and selection of the new service manager has been undertaken and (now in post) will be developing a new communications plan for the service. The on-line service has also been maintained and Resources and

Transformation directorate has led on book exchanges being considered at Pheasey and Pelsall. Work with schools to give children access to books has unfortunately received a knock with de-delegation by the Schools Forum, although work to review the implications to the service are on-going. The project to renovate, restore and redecorate the Central Library and integrate the Local History Centre and Archive into the Flint Gallery wing is under development, with expected completion by November 2018. Work on the Leather Museum has included a new Victoria Cross display, whilst an on-line shop sale and the introduction of a new non-resident adult admission fee are being considered.

41 - Reduction in Public Health investment in drug and alcohol treatment services

Actions included the monitoring of impact on any service remodelling, (in particular BME communities, steroid users, eastern European communities), on service users with a dual diagnosis: forging partnerships with mental health specialist services; prioritising prevention services for vulnerable young people; retaining specialist maternity services; encouraging the specialist drug and alcohol service to utilise local voluntary sector agencies to deliver elements of the service; and prioritising prescribing services and easy access to those services. Key concerns are around ensuring that targeted services are protected for the most vulnerable service users with mental health and learning disabilities and those experiencing homelessness, safeguarding service users, their children, families and the wider public from harm and prioritising the coordination of service entry in the criminal justice system.

To mitigate these issues, the demand on the specialist treatment service from individuals with co-existing addiction and mental health problems has remained high. Local mental health community services are being redesigned. There have been some good practice examples of joint care planning where residential detoxification and residential rehabilitation has been required for individuals with complex needs.

Maternity services remains part of the core service and will be enhanced by the introduction of the Family Drug and Alcohol Courts service for pregnant women. The demand for steroid users has also reduced. The Beacon and The Glebe Centre services continue to respond to requests to work with Eastern European street drinkers and are offering to enhance this outreach provision in 2017/18 with additional funds granted by the Community Safety Partnership. There continues to be no waits for the core services that fall outside of the national 3 week guidance, with access much shorter for most new entrants.

Enhanced coordinated work has been possible with the most vulnerable as a result of the partnership forged with colleagues in the Housing Team as a result of the piloting of the Winter Night Shelter. However, losing staff from the drug and alcohol services must be carefully managed and monitored to understand the impact on the safeguarding of vulnerable adults and children. Discussions with council representatives continue to mitigate against negative impacts. Finally, the Police Crime Commissioner has allowed the Community Safety Fund to be utilised in 2018/19 for priority local projects, meaning these services will continue for a further year.

46 - Cease all Public Health investment in adult weight management programmes

Key actions included monitoring any negative impact on protected groups as a result of stopping the service as well as health trends affecting those groups, signposting service users to alternative programmes and promoting healthy living,

To mitigate these actions, the service has signposted people to other organisations who can help with weight management and direct them to the range of physical activity provision across the borough. The existing weight management programme 'Evolve', delivered through Sports and Leisure, is being reviewed to improve access to this service from protected and vulnerable groups. In partnership with Walsall Housing Group the service has commissioned a Man V Fat Programme targeting overweight men. The service is also promoting healthy lifestyle messages and self-help tools in relation to diet and physical activity through the current lifestyle service 'One You Walsall'. Through a contract variation Public Health has negotiated with our existing Lifestyle Service 'One You Walsall' to provide tier 2 weight management support for no additional cost. This service is being promoted widely with key partners, including GPs, with electronic referral forms and pop ups to prompt GP's to refer. Public Health continues to engage with the CCG in relation to tier 3 weight management and have suggested a review of tier 4 services within the Acute Trust to see if the existing pathway could be redesigned to incorporate tier 3 services.

47 - Reduction of Public Health stop smoking services

The service is expected to monitor any negative impacts upon targeted groups as a result of reduced investment and reduction in the range and scope of services and review national smoking trend data and its impact upon protected characteristics.

Following preliminary comparison of available data for 2017/18 against the previous years, there is insufficient information to comment on whether any changes in the demographic characteristics are due to seasonal fluctuations or as a result of the reduced investment. In addition, recent information on smoking trends (June 2017 PHE Local Tobacco Profile), does not take into account trends since the reduction in budget. This will be monitored as more information becomes forthcoming.

Resources and Transformation

75 - Closure of Banking Hall

This proposal had a number of mitigating equality actions. These included the timely provision of alternate formats in promotional literature, monitoring of impact on and supporting of vulnerable communities, establishment of options appraisals and keeping staff on through the transition to alternative provision which will meet departmental needs.

As a result of these actions, appropriate closure notices, flyers and face to face meetings were established, council tax and housing benefit collection is being monitored, engagement with Adult Social Care in supporting vulnerable adults and their ongoing support, including the provision of an alternative pre paid card system, to remove the need for cash payments being made at the civic centre and allowing individuals to live more independently.

11.11 Update on Cumulative Equality Impact Assessment

In the Corporate Budget Plan 2016/17 to 2019/20 a number of areas of complex cumulative impact were identified that required mitigating actions in relation all 9 equality characteristics. As various mitigating actions are being implemented, the following equality characteristics continue to be prioritised in 2019/20:

Children and Under 5: Several process changes within Children Services enabled better targeting and engagement with vulnerable groups of children. These include the Early Help Performance Score Card capturing disability, as well as the External Placement Panel better reviewing out of borough placements of looked after children and Fostering Steering Group. Library Services working with schools and other organisations to give children access to books, encourage reading and improve literacy has experienced some setbacks through the Schools Forum. However, implications for the service are currently being reviewed and options are being considered. *One You Walsall* successfully developed the Super Wiggles Club for families with children aged 2-7 who are above a healthy weight and which continues to support weight management in a more targeted way.

*Youth and Young Adults; C*ontinue to be prioritised in prevention services for vulnerable young people and encouraging the specialist drug and alcohol service through utilisation of local voluntary agencies.

Older People and Disabled People will benefit from new established procedures for monitoring all respite care and better joined up working between the Disability Hub and Civic Centre Admin to support day care users at Fallings Health. Seed funding from One Walsall will be made available to the voluntary sector to develop community services for adults with learning disabilities. The Locality Model will ensure that health and care locality teams are better coordinated to ensure early intervention and prevention.

Sex, gender reassignment, maternity and pregnancy, marriage, sexual Orientation: Whilst Public Health investment in drug and alcohol treatment services will continue to be reduced, impacts, particularly on the safeguarding of vulnerable adults and children, is managed and monitored carefully. The specialist maternity services will be retained and enhanced by the introduction of the Family Drug and Alcohol Courts service for pregnant women.

Race or Minority Ethnicity and Religion and Belief: The council has been successful in obtaining Ministry of Housing, Communities and Local Government funding from the Controlling Migration Fund and this will enable us to continue to respond to the needs of new communities, particularly in those services that have experienced budget cuts and where there are existing pressures or barriers to access to services.

Findings from the cumulative impact assessments and corrective actions are monitored quarterly by the Corporate Equality Group and updates will be provided as appropriate.

11.12 Equalities Monitoring Process

The Equality team will carefully consider the full impact of all EqIAs, with the support of CEG and CMT. Emphasis will be placed on managing and mitigating any adverse impact to the services, within available budgets, and in consultation with their service users with protected characteristics. Managers implementing the service changes where potential impact has been identified will be responsible for any mitigating actions outlined. Progress will continue to be tracked quarterly by CEG and reports provided to Cabinet/CMT as required.

12 Consultation

12.1 For our services to meet the needs of local residents, and of the community at large, it is essential that our plans and policies take into account the views of local people and others who use our services. We use a broad range of consultation methods to ensure as far as possible that people have sufficient information to comment, as well as the time and any necessary support they require to have their say. All feedback gathered is collated and carefully considered as part of the decision making process.

12.2 In order to inform decision making on the council's four year budget plan, detailed consultation was undertaken in the Autumn of 2016. A wide range of stakeholders (i.e. councillors via overview and scrutiny committees, residents, service users and potential service users as appropriate, national domestic rate payers and voluntary and community organisations, etc.) were consulted on the draft proposals, and, following consultation, those draft proposals were either approved, revised, reduced, re-profiled or withdrawn (see report item 11 to Council in February 2017 for details and section 12 of that report - Corporate Budget Plan 2016/17- 2019/20). Following approval of the 2017/18 budget in February 2017, a small number of draft proposals for 2018/19 remained subject to consultation / further consultation and an update on those now requiring a decision is provided in sections 12.3 below.

There are no new policy saving proposals for 2018/19 on which to consult.

12.3 Progress update on Executive (Cabinet) Decisions made in February 2017

Saving 2 - Charging for Appointeeships (£15k in 2018/19)

Executive (Cabinet) Decision	Progress update
Approve further consultation and report back to Cabinet	An alternative operational proposal is being considered, should this not be feasible, then consultation on charging will be undertaken early in 2018/19 and reported back to Cabinet for a decision.

Saving 17 – Introduce charging for garden waste collections (£300k in 2018/19)

Executive (Cabinet) Decision	Progress update
Approve further consultation	Consultation was undertaken and feedback provided to Cabinet on 25 October 2017. Following consideration, this saving was withdrawn.

Saving 63 - Introduction of a street and roadworks permit scheme (£75k in 2018/19 and £25k in 2019/20)

Executive (Cabinet) Decision	Progress update
Officers are instructed to undertake the necessary consultation and equality impact assessment and Cabinet will review this prior to any decision on implementation. (Re-phased from £100,000 originally in 2018/19)	A Roadworks Permit Scheme is being developed across the Black Country in order to better manage works on the highway for the benefit of the public. This will involve a formal consultation process in the summer and Cabinet will consider this in the Autumn of 2018.

Saving 77 consisted of a number of proposals in relation to ceasing universal services within adult social care. One aspect, relating to the community alarms service, is subject to further review and consultation will form an integral part of that review process, following which options will be reported back to Cabinet.

12.4 Feedback from Overview and Scrutiny Committees

Overview and Scrutiny Committees received the draft revenue budget proposals in October / November 2017 and Cabinet received feedback in December. The report to Overview and Scrutiny included details on the draft budget proposals relating to the services within their individual remit. The draft budget report to Cabinet on 13 December 2017, including the draft capital programme and draft revenue budget update, was referred on to Overview and Scrutiny Committees in January 2018. Committees were advised that there were no new policy saving proposals for 2018/19.

Feedback from Overview and Scrutiny Committees on the draft capital programme and draft revenue budget update is attached at **Appendix 1**.

12.5 Statutory consultation with Non Domestic Rate Payers (businesses and the community and voluntary sector)

As part of the council's statutory duty to consult with representatives of local non-domestic ratepayers (NDRP), businesses and community and voluntary organisations were consulted on an increase in general council tax and the council tax precept for adult social care.

On 4 December, an email, which referenced the draft budget and explained the proposed increases in council tax, as well as the adult social care precept, was distributed electronically to c3,000 businesses and c400 community and voluntary organisations throughout the borough. The communication included a link where further information could be found and provided an email address through which people could have their say. By the closing date of 22 December 2017, one response had been received from a business representative who was supportive of the intended 4.99% increase, provided the adult social care element was passported to that service.

13. Amendments to the Revenue Budget

13.1 The draft revenue budget contains no new policy proposals in respect of 2018/19, but does include some new operational savings. These were set out in the report to Cabinet on 25 October 2017, with minor amendments to Cabinet on 13 December 2017. Feedback from consultation and equality impact assessment results were received by Cabinet informally and are set out within this report.

13.2 Changes arising from Cabinet's review of the developing proposals, consultation feedback, and equality impact assessment reviews (as identified in the previous section of this report) are set out below, all of which are reflected in the list of savings proposals at **Annex 5** of the Budget Plan.

13.3 Following the comprehensive consultation and equality impact assessment process followed during last years' budget process, policy decisions were approved in relation to both 2017/18 and 2018/19. A small number of policy savings for 2018/19 were subject to further review and Cabinet are now asked to approve the decision as set out in **Table 1** overleaf (under the heading Executive (Cabinet) Decision and instruct executive directors to implement the resulting decision.

13.4 A number of 2018/19 and 2019/20 proposals are subject to further review, including where applicable, consultation and equality impact assessment. Where decisions are required on these prior to implementation, these will be brought back to Cabinet.

13.5 In summary, 3 of 32 2018/19 policy proposals have been revised, re-profiled or withdrawn, from those originally contained within the draft budget reported to Cabinet on 25 October 2017, as follows:

- Saving 2 – Charging for Appointeeships – defer until 2019/20 and replace in 2018/19 by operational savings.
- Saving 11 – Review and reduce Children's Social Care contact service – defer until 2019/20 and replace in 2018/19 by operational savings.
- Saving 17 – Introduce charging for garden waste collections - £300,000 - removed and replaced with operational savings as agreed by Cabinet on 25 October 2017 in a separate report following consultation feedback on this proposal.

13.6 The draft budget for 2018/19 and 2019/20 is balanced. The 2020/21 budget is not yet balanced, with the requirement to find c£11m of additional savings / efficiencies, and work continues to identify opportunities to balance that year.

Table 1 : Summary of Revised Savings and the Executive (Cabinet) decision					
Saving ref	Policy Saving Consulted on	2018/19 £	2019/20 £	**Decision required**	**Executive (Cabinet) Decision**
Resources and Transformation					
2	Charging for Appointeeships	15,000		Yes	To defer this and replace in 2018/19 by an operational saving whilst the feasibility of charging is reviewed.
Children's Services					
11	Review and reduce Children's Social Care contact service	64,000		Yes	To defer this until 2019/20 and replace in 2018/19 by an operational saving whilst the newly appointed Executive Director undertakes a review of Contact Services
Economy and Environment					
60	Increase cost of parking permits	6,000	6,000	Yes	To approve an increase in charges by £1 per month for 2018/19 and a further £1 for 2019/20.

Background papers

- Corporate Budget Plan 2016/17 - 2019/20
- Draft Revenue Budget and Efficiency Plan 2017/18 – 2020/21 - Cabinet 25 October 2017.
- Draft Capital Programme 2018/19 to 2021/22 and Draft Revenue Budget Update - Cabinet 13 December 2017.

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James Walsh
Assistant Director - Finance (CFO)
6 February 2018

Councillor S. Coughlan
Leader of the Council
6 February 2018

Appendix 1

Report on findings from Overview and Scrutiny Committees

Overview and Scrutiny Committees received the draft revenue proposals in October and November 2017 and revisions to the draft revenue budget and the draft capital programme in January 2018. The Committees reviewed the proposals and raised a number of questions and queries, which were responded to by officers and portfolio holders at each meeting.

This section summarises the comments and recommendations from the panels and, where applicable, Cabinet's consideration of these.

Education and Children's Services Overview and Scrutiny Committee

Meeting on 21 November 2017:

Saving 6 - Review demand for SEN transport. More provision of Special School Places will reduce transport and existing travel costs

Members questioned what guarantee there is that there will not be a negative effect on vulnerable children through such a reduction. It was noted that whilst such transport is provided for vulnerable children and that it has to be well thought through, it is also desirable for young adults with learning difficulties such as autism to begin to become more independent, so that they can start to use public transport. Members highlighted the problems that had been experienced by some parents due to changes to the criteria/provision, which meant that some children had either missed the start of the school day or had been unable to attend school.

Savings 9/10 - Reduction of spend on Looked after Children including those in out of borough placements and reduced LAC numbers and costs

Members sought clarification on the accuracy and calculation of the figures and the degree of confidence that money would be saved by bringing in children who are out of borough placements. It was noted that the number of looked after children has increased from 620 to 668 and there is a different cost for every child, although an average cost is used for calculations; however, any cost savings will have to ensure that the right decision is made for each of the children concerned. Savings would be made in respect of three work streams, namely foster care, residential care (by reducing the number of children being cared for outside of the Borough) and by reducing the number of looked after children.

Saving 11 - Review and reduce Children's Social Care contact service

Members questioned why it is proposed that this service be reduced. It was noted that the achievement of any savings should not mean that any child received less contact time than they should have otherwise had. Also emphasised was the desirability, where possible, for children to have a single point of contact.

Saving 90 - Reduce administrative support – Children's wide

Members questioned why administrative support is being reduced and what will happen in the future as a consequence of this. The importance of administrative support was recognised, and it was noted that the aim is to ensure that all children remained safe but, as savings have to be found, there will be a thorough review of such support and targeting to ensure it is provided in the right places.

Saving 91 - Review and reduce Early Help 0-19 model

Members questioned why a review and reductions were proposed in terms of this model. It was noted that as part of the new contract for 0-19 locality services, it is anticipated that it could be possible to achieve efficiencies due to the introduction of new approaches.

Saving 93 - Review demand for Special Educational Need (SEN) short breaks

Members expressed concern regarding the impact on families of any reduction to the provision of SEN short breaks, given that demand for this is increasing, as this could be especially detrimental to those parents already struggling. Members enquired whether any form of respite will be available, and what the impact/risk assessment is for this, given that any economies will have to be offset against the possibility of these children having to access full-time care. That the short-term costs should be offset against the long-term gains to be made was also noted. Any decisions would be based on a detailed review of current services and future models of delivery.

Saving 95 - Reduce agency social workers

Members questioned whether this is achievable given the workload demands in the Children's Services Directorate. Members noted, however, that it is a Walsall Council policy not to rely on agency or temporary staff but recognised that it might be necessary in certain circumstances. The intention is to replace these workers with permanent staff.

Saving 97 - Review and reduce Children's Social Care Workforce Training & Practice Development

Members were of the view that the offer of development and training was integral to recent improvements in the success of the recruitment process for social workers, as the council wanted prospective employees (especially those from outside of the area) to see Walsall as an attractive place to work and live. This was being carried out in conjunction with the steps to reduce the caseload for social workers.

Saving 99 - Review and reduce Children's Youth Justice Services or Identify Alternative contributions.

Members noted that when reductions had been made to the Youth Service there had had a number of unforeseen consequences and problems, both for the council and other agencies. With these ongoing reductions, there were concerns that there would be a continuation of these consequences and problems.

The Committee noted that the 2018/19 and 2019/20 policy savings had all previously been consulted on as part of the 2017/18 budget setting process and that feedback from the

Committee was taken into account at this point in time.

There were no recommendations made to Cabinet.

Meeting on 9 January 2018:

The Committee noted the changes to the revenue saving proposals for 2018/19, as were reported to Cabinet on 25 October 2017, and noted that there were no changes related to the remit of the Committee.

Having regard to the draft capital programme for the four-year period from 2018/19 to 2021/22, the Committee sought and received clarification during the meeting on:

- Supporting transformation - Looked after children – out of borough placements. To fund increases in borough bed capacity
- Supporting transformation - Looked after children – 2/3 bed-roomed small residential home targeted to accommodate children per year.
- Pinfold Centre – relocation of Children's Services Independent Review & Child Protection conference service from The Hollies
- Corporate parenting contact and assessment hub – relocation of 4 locations into 1
- With respect to the item: Basic Need - Estimated DfE allocation, it was agreed that a detailed breakdown should be provided for circulation to the Committee.

There were no recommendations made to Cabinet.

<u>Corporate and Public Services Overview and Scrutiny Committee</u>

Meeting on 23 November 2017:

The Committee reviewed a report on four yearly election proposals and discussed in depth the process involved with changing the election cycle in the Borough. It was agreed that the Committee monitor changes to the election cycle at Birmingham City Council and establish a cross Scrutiny Committee working group after the local elections in May 2018 to look into proposals in depth.

The Committee resolved:

(1) That the draft capital programme 2018/19 to 2020/21 be noted;
(2) That a cross Scrutiny Committee working group be established after the Local Elections in May 2018 to examine Election proposals;
(3) That in connection with (2) above, the Committee monitor changes to the election cycle at Birmingham City Council;

There were no recommendations made to Cabinet.

Meeting on 11 January 2018:

The Committee noted changes to the revenue savings proposals for 2018/19 in particular to Savings 17 on garden waste collection charging.

The Chair invited Members of the Committee to propose questions and comments on the draft capital programme to the relevant portfolio holder and the following responses were made:

Clean and Green

Garden Waste Proposals - A Member highlighted that a cessation in trade waste operations would enable operations to be focused on core services.

Deputy Leader and Regeneration

Replacement of obsolete fixed site speed enforcement camera infrastructure - A Member sought clarification on the location of replacement fixed site speed cameras. The Committee were informed that potential sites had not been finalised and that the Council were analysing the impact of current fixed cameras in Birmingham and Solihull.

Prior year approval – CCTV upgrade to equipment - A Member sought clarification on the implementation of an upgrade programme to CCTV equipment. The Committee were informed that every CCTV camera would be upgraded with an additional £60,000 spent on mobile cameras.

Personnel and Business Support/ Agenda

High level parapet wall – Sneyd, Vernon Way - Members were informed that a high level parapet wall required improvement works to ensure safe access to a Swimming complex at Sneyd Community Association. It was further stated that scaffolding and boarding costs had been included in the costs of the works.

Community, Leisure and Culture

Invest to Save – Oak Park Active Living Centre – Second Artificial grass pitch – match funding being sought from Football Association - Members were informed that additional parking at Oak Park Active Living Centre had been considered and parking issues would be addressed before a construction of a second artificial grass pitch.

There were no recommendations made to Cabinet.

Social Care and Health Overview and Scrutiny Committee

Meeting on 26 October 2017:

Committee highlighted concerns in relation to savings reference 41 in the 2016/17 budget consultation which related to the reduction in budget for addiction services.

Meeting on 28 November 2017:

Further detail on the impact of the reduction of addiction services was considered. The Committee expressed concern about the significant social and human cost of the reduction in addiction services to individuals and their families, and also the pressure that a reduction in the service may place on the public sector. In conclusion the impact of addiction on the community was felt to be significant and therefore prevention services should be prioritised in all future budget setting processes.

The Committee resolved that the presentation on addiction services, considered by the Social Care and Health Committee on 28 November 2017, is forwarded to Cabinet, who are asked to reconsider the proposal due to the wide ranging impact of the budget reduction for addiction services, in particular on the number of Looked after Children.

Response from Cabinet:

This saving covered three years, as follows:

2017/18 £143k
2018/19 £250k
2019/20 £500k

Following extensive consultation and equality impact assessment, a number of actions were put in place, to seek to mitigate adverse impact including:

- Prioritising prescribing services
- Prioritising easy and swift access to services
- Protection of targeted services for the most vulnerable service users with mental health and learning disabilities and those experiencing homelessness
- Safeguarding service users, their children, families and the wider public from harm
- Prioritising the coordination of service entry from critical stages in the criminal justice system (arrest, courts and prisons) People

Corporate Equality Group (CEG) identified the monitoring of the impact of this saving during 2017/18 and has received updates on actions.

There is a reduced demand in the volume of young people presenting for specialist treatment, however those that do present have more complex needs and are using synthetic substances for which evidenced treatment responses are not well developed. Demand from individuals with dual diagnosis of drug/alcohol addiction and mental health issues remains high. The focus on meeting the needs of pregnant women will remain a priority and will be enhanced for a small number of women if the Family Drug and Alcohol Court service becomes operational late in 2018. Partnership work with the Housing providers has enhanced the access to accommodation for substance misusers but as demonstrate by the Night Shelter the challenge of those with the most complex needs remains only partially addressed. Criminal justice substance misuse services have been granted a further year's non recurrent funding by the Police and Crime Commissioner (PCC) for 2018/19.

Cabinet intend to proceed with the 2018/19 proposal and the present service providers have agreed to adjust the service to match the reduced contract value.

Active contract negotiations for 2019/20 have already started to establish if further reductions can be achieved. Early indications and experience from neighbouring area suggests that the proposed contract value may be close to a tipping point. The current provider agency is indicating that within the current scope a safe and quality service may not be deliverable within the proposed budget. If this is how the negotiations conclude the scope of the service will require significant changes and a retendering process will be required to test the market. In addition, there is no guarantee of any PCC funding for 2019/20. The achievability of the 2019/20 saving therefore will be kept under active review by Cabinet.

Meeting on 18 January 2018:

A Member challenged the capital spend on Mosaic and questioned if this was the final phase of the implementation programme. The Executive Director stated that the additional spend was due to two factors: the slippage created due to the focus needed on the Ofsted inspection of Children's services; and the scope of the implementation had now been extended to include the interface with CM2000 which had not previously been available. This extended the functionality of the system and created a more accurate payment system for the care delivered. Members were also assured that internal staff were being trained to use Mosaic which would extend the skills and knowledge within the organisation; and the full external interim team had now been exited, to reduce the ongoing costs.

The draft capital programme was noted.

There were no recommendations made to Cabinet.

Appendix 2

For Approval by Cabinet and Recommendation to Council:

Corporate Budget Plan and Treasury Management and Investment Strategy

2017/18 to 2020/21

February 2018

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Part 1 – Revenue and Capital Budget Plan

1. Financial planning and management: matching resources to the vision

The council's budget is a financial representation of the organisation's plans for the forthcoming financial year and beyond. In times of economic uncertainty, it is imperative that the council plans over the medium term. This budget looks over the lifetime of the spending review period to 2019/20 along with a further year to 2020/21, and is constructed as an integral part of the council's planning processes. It is aligned to its priorities and objectives and specifically the council's corporate plan, strategic economic plan, and our corporate workforce strategy.

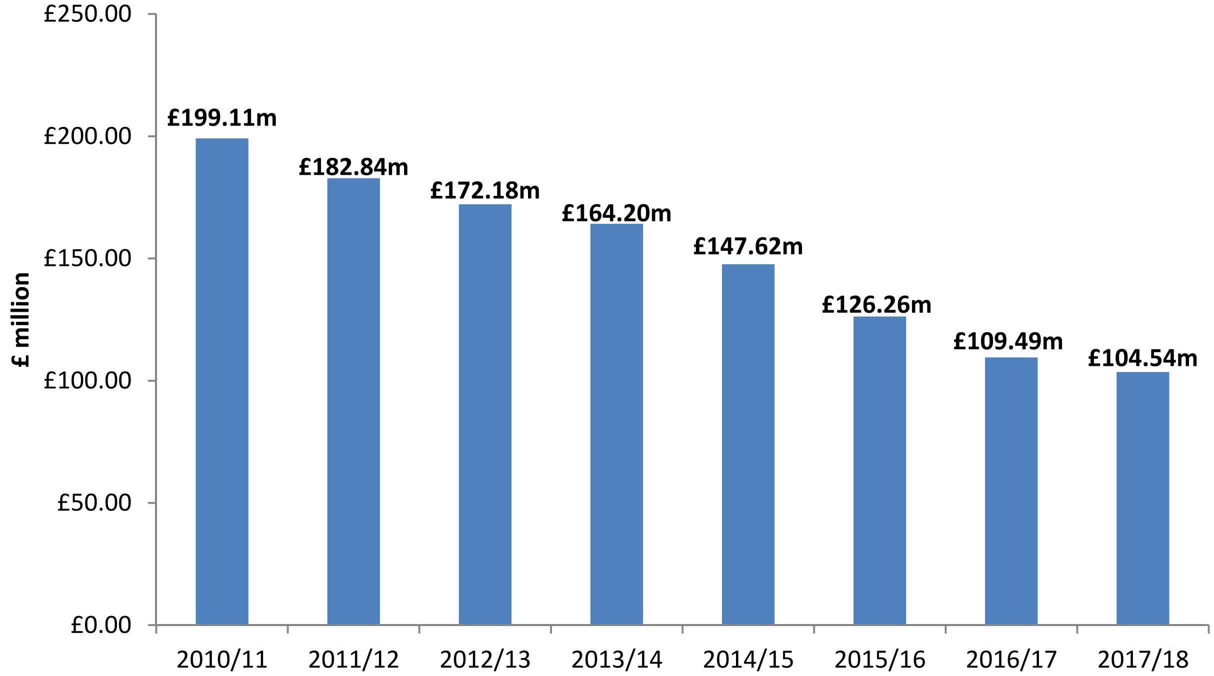
Walsall Council exists to serve the people and communities of Walsall, by representing and working with them to protect and improve the quality of life for all, particularly the most vulnerable. Walsall Council will provide strong, fair, open and honest leadership for the borough and its people and work with any organisation willing to work in the best interests of Walsall. We do this with limited resources and so must always work to ensure that public money is targeted to where it is most needed and used in the most efficient way possible. We are led by the communities we serve who help shape the services we provide and we help those communities to make a positive difference to their own lives through active civic engagement and co-operation.

By 2021 the council will be a key enabler of improvements to Walsall and its' Districts as a place to live, learn and work; working innovatively and collaboratively with strong and resilient communities, public sector partners, schools and businesses to shape services that deliver real and sustainable improvements to people's lives. The council will by necessity be smaller, doing fewer things, and those services that we continue to provide will be delivered in a very different way to how they are now. Our efforts will be focussed on reducing health, social and economic inequalities and creating an environment where the potential of the area, local businesses, communities and people can be maximised.

Our Challenges

Around half of Walsall's funding comes from Government grant (56% - top up, schools SDG and some specific service grants). In 2010, Walsall received £199m of Government core funding support to deliver services, alongside income generated from council tax. Between 2010 and 2017, Government has cut funding by c£95m. Alongside cost pressures over the same period, savings totalling c£160m have had to be identified and implemented.

Government Funding 2010/11 to 2017/18



Figures have been adjusted to add back any specific grants which have rolled into general funding

Total forecasts for core funding are shown below. This shows expected reductions of c£12.59m over the period to 2020/21 subject to confirmation -

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total (Reduction) / Increase £m
Business Rate Retention (BRR) baseline funding adj for expected income collection	71.971	70.500	74.234	74.253	2.282
Top Up grant	32.569	27.154	17.698	17.698	(14.871)
Total Cash Limit	**104.540**	**97.654**	**91.932**	**91.951**	**(12.589)**
2018/19 Reduction		**(6.886)**			
2019/20 Reduction			**(5.722)**		
2020/21 Increase *				**0.019**	
Total Reduction					**(12.589)**

** As 2019/20 is the end of the current Spending Review period, no figures are available for 2020/21 plus. Current assumptions are that funding is maintained at 2019/20 levels.*

The Government, in the provisional settlement announced on 19 December 2017, confirmed that it is expected that local government will become 75% self-funded by 2020/21 from the localisation of business rate retention (BRR) – a change in plan from the 100% originally planned (as opposed to the current 49%), with core revenue support grant ceasing. The Government expects national increases in growth in rate yields to fully offset the reduction in core funding.

In October 2016, Cabinet approved that Walsall be part of the West Midlands Combined Authority (WMCA) 100% business rate retention (BRR) pilot from 2017/18. Government indicated that this will be at ‘no detriment’ to participating authorities; however, there remains some uncertainty as to the final impact of full BRR longer term. The provisional settlement announcement on 19 December 2017 confirmed that 100% business rate retention pilots would continue into 2019/20.

The council’s second largest source of funding is council tax (18.8% of the council’s gross spend is funded from council tax). Government has historically placed restrictions on the amount that can be raised from this income stream, previously through ‘capping’, and now through the referendum principles. The revenue budget assumes a council tax increase of 4.99% for 2018/19.

Despite Walsall signing up to and being accepted for the multi-year settlement, future funding continues to be very challenging with significant uncertainties in future grant, including public health, better care fund, etc. Additionally, as part of BRR, the Government is consulting on transferring additional responsibilities to local authorities. This could lead to further pressures if these are not fully funded.

Alongside reductions in funding, the council also faces increasing cost pressures, due both to rising demand (for example, as a result of welfare reforms reducing individual’s disposable incomes further, larger numbers of older people requiring support to remain independent, etc) and new burdens imposed by Government, but without the corresponding funding. There are numerous cost pressures in the system, the most significant being;

- Looked after children numbers and costs. There were 488 in March 2011, compared to 663 in December 2017. Average costs of a care package for a looked after child at December 2017 was £624 per week.
- Children social worker costs - arising from recruitment difficulties.
  Adult social care packages and placements costs. These have risen by £10.27m in 7 years from £56.21m in 2010/11 to £66.48m in 2017/18.

Further information on cost pressures and how these are being managed within the medium term financial outlook are outlined in section 2 and summarised in **Annex 4**.

The Medium Term Financial Strategy (MTFS)

The MTFS is a strategic framework and policy document within which the council's finances are constructed and managed. It is part of a suite of policy documents that together comprise the council's approach to effecting sound governance and good practice. It is the translation of our vision, aims and objectives into a financial plan, which thereby facilitates delivery of these through the portfolio planning process.

The MTFS is a key document in bringing together the level of available resources with the demands for service delivery and investment, facilitating sound financial and service risk and opportunity management. It also links to the impact on the council's capital resources and external funding opportunities.

Figure 1 shows the relationship between the various components of the financial framework. The MTFS is the overarching corporate financial policy sitting below the Corporate Plan and above the other elements of the financial cycle. It is the driver for all other financial activity. Below the MTFS sit the other financial strategies; the capital strategy and the treasury management strategy.

The council adopts a policy-led, medium term approach to financial planning, seeking to ensure our budgets are clearly linked to our vision, aims and objectives. We are committed to maintaining financial stability and delivering value for money through effective and efficient services.

The main objective for the council is to maintain good long-term financial health. Achieving this allows us to deliver good quality, value for money services, shaped by our customer demand. Services that are modern, efficient, effective, and fit for purpose. This requires a framework that delivers both continuous, adaptive improvement and core strength.

How we will achieve this is through:
1. Financial Governance and Leadership
2. Financial Planning
3. Finance for Decision making
4. Financial Forecasting and Monitoring
5. Financial Reporting

Figure 1: Financial Framework

THE FINANCIAL FRAMEWORK					
CATEGORY	**OVERALL**	**REVENUE**	**CAPITAL**	**TREASURY MANAGEMENT**	**RISK MANAGEMENT**
Strategies	**Medium Term Financial Strategy**				
		Tax Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management Strategy
Guidance	CIPFA and technical guidance	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	Risk Management Toolkit
Plans	MTFO	Annual Budget	Capital Programme and Asset Management Plan	Treasury Policy Statements	Risk Management Action Plans
Governance	Constitution	Budget Management and Control Manual and the Annual Governance Statement		Prudential Indicators & Annual Report	Risk Register reporting and regular review
	Contract and Finance Rules				Audit Committee Reports and Annual Report
	Internal and External Audit Plans and our response to inspection and audit				

Financial Governance and Leadership

1. Our top management will be financially literate and able to understand fully the financial environment in which the council operates.

Financial Planning

1. Our financial planning will be inextricably linked to the council's strategic and corporate planning process. Our financial plans will reflect the councils key strategic priorities.
2. An annual medium term financial outlook, covering a four year time horizon, will integrate current expenditure plans and investment programmes, with cash-flow and balance sheet projections, developed in the context of a longer-term strategy, which supports the council's strategic plan.

Finance for decision making

1. In developing our strategic and corporate plan we will consider the value for money achieved by allocating resources to different activities.
2. We will understand the financial implications of current and potential alternative policies, programmes, and activities.
3. We will analyse our cost profiles and cost drivers and how they will behave under different circumstances.
4. We will understand the whole-life costs associated with capital investment.
5. We will consider all tax related implications, as outlined in the council's tax strategy, in all decisions made.

Financial Monitoring and Forecasting

1. Top management will assure itself that financial performance to date and forecast financial outturns are in line with the plan, including cash-flow and balance sheet projections.
2. Variances will be identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities.
3. The underlying costs of the organisation's key activities and how these are profiled over time will be monitored and reviewed.
4. Financial information will be integrated with non-financial performance and activity information. Together, such information forms the basis for financial forecasts and enables value for money to be monitored.
5. The financial information used both for setting the budget and internal accountability, monitoring and forecasting throughout the year is derived from the same systems that are used to generate the results reported externally in the organisation's statutory financial statements.

Financial Reporting

1. To run the organisation effectively, top management will have up-to-date financial and non-financial performance information on a timely basis.
2. Reports will be presented in a form that is tailored to user needs, are easy to understand and highlight the key financial issues that they need to be aware of.
3. For its part, top management needs to provide timely, accurate and balanced information about its stewardship and use of resources and its non-financial performance to the organisation's different stakeholders. Such information will be presented in a form tailored to meet their needs.

2. Summary of the 2018/19 Revenue Budget

The budget has been prepared for the four year period 2017/18 to 2020/21 to extend beyond the current Parliament and Government's Efficiency Plan period to 2019/20. The 2017/18 position is reported regularly to Members. The current position is a forecast small overspend of c£960k, equivalent to 0.15% of the council's gross revenue expenditure.

The focus in this section is 2018/19, as this is the year for which Council are required to set the forthcoming financial envelope (the 'statutory determinations' or gross expenditure and gross income), the council tax requirement and the band D council tax level. Section 4 provides further detail on 2019/20 and beyond.

<u>2018/19 Revenue Budget Headlines</u>

The revenue budget is constructed in accordance with the council's medium term financial strategy (MTFS), the corporate plan, and all relevant corporate financial protocols and presents a draft balanced budget, with:

- A focus on a policy-led, medium term, risk assessed budget setting approach using priorities established by Cabinet,
- A total net council tax requirement of **£114.99m,**
- A 4.99% council tax increase, equivalent to a Band D Council Tax of **£1,648.71** (excluding precepts) and **£1,836.10** (including precepts) subject to confirmation of final precepts,
- Investment of **£5.31m** for Adult Social Care - £2.58m for demographic changes, and £2.73m for other contractual changes,
- Additional one-off grant investment of **£895k** for adult social care, as announced on 6 February in the final Settlement,
- Investment of **£5m** for Children's Services cost pressures primarily to cover Looked after Children, management of caseloads, demographic changes and contractual inflation,
- Provision for other known budget pressures, including cost pressures and reduced levels of income or grant, of **£4.5m,**
- Provision for pay related costs of **£2.24m**,
- Bringing **total investment to £17.05m,**
- Savings of **£12.43m**, plus changes in council tax funding of **£6.52m**,
- Appropriate use of prudential borrowing to support capital investment where affordable and sustainable with revenue costs being reflected in this report,
- Opening general reserves of c**£14.6m** in line with our Medium Term Financial Strategy, including ringfenced allocations for demand led services.

The financial implications arising from the draft capital programme 2018/19 are contained within the draft revenue budget.

<u>Net Council Tax Requirement</u>

The gross revenue expenditure budget for 2018/19 will be **£613.373m**, and gross income will be **£498.387m**, resulting in a net council tax requirement of **£114.986m**.

It has been possible to commit to £17.05m **(Table 1)** to address key priorities in 2018/19, funding of essential cost pressures, provision to fund inflationary pressures (i.e.

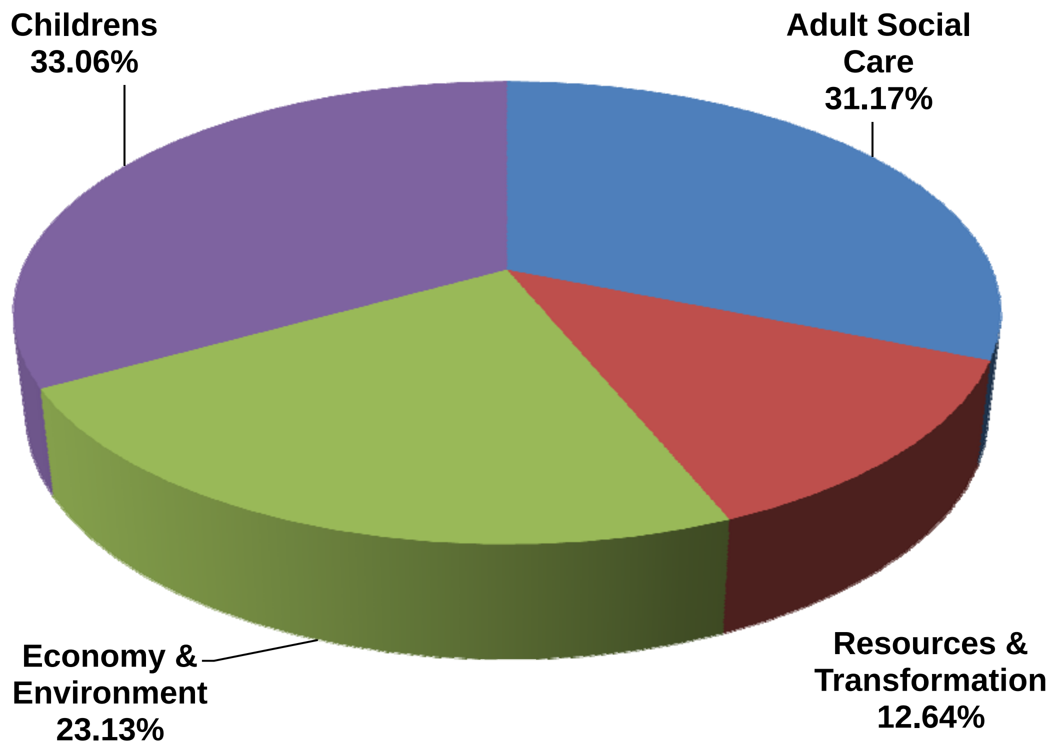
contractual) and corporate cost pressures to fund for example, pay and pension costs. Income targets have also been corrected in some areas, where ongoing shortfalls have arisen.

The change in council tax requirement from 2017/18 to 2020/21 is shown in **Table 1.**

Table 1 : Council Tax requirement 2017/18 – 2020/21 (Movements)				
	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Council tax Requirement	**100.99**	**108.47**	**114.99**	**118.78**
Cost Pressures:				
Investment / cost pressures ***(see Annex 4)***	25.17	14.81	11.39	12.89
Pay changes – centrally held	3.31	2.24	5.11	5.83
Savings approved for 2017/18 (Feb 17)	(22.00)	0.00	0.00	0.00
New savings ***(see Annex 5)***	0.00	(12.43)	(19.54)	0.00
Further saving required	0.00	0.00	0.00	(11.39)
Other changes including grants / income	(0.23)	(2.96)	(3.24)	10.83*
Fall out of one off investment	1.99	(2.32)	0.12	0.00
Funding changes:				
Core Funding changes	0.64	6.89	5.72	(16.78)*
Collection fund (surplus) / deficit	0.00	4.06	0.98	0.00
Transfer to / from reserves	(1.40)	(3.77)	3.25	0.16
Revised Council Tax Requirement	**108.47**	**114.99**	**118.78**	**120.32**
Council Tax Increase	4.99%	4.99%	2.99%	1.99%

** Public Health grant is assumed to be transferred from a direct ring-fenced public health grant into core funding top up grant.*

Figure 2 – Net council tax requirement by directorate



This results in a band D council tax for the Walsall Council element only of £1,648.71, representing an increase of 4.99% from 2017/18 levels. Most properties in Walsall (68.58%) are in bands A or B. (**Annex 2**). **Table 2** shows the calculation at Band D.

Table 2: Net Council Tax Requirement and Council Tax Levels 2018/19		
Element of budget	**2018/19 budget £**	**Council Tax Band D £**
WMBC element - required from council tax	**114,985,916**	**1,648.71**
Police & Crime Commissioner precept	8,965,458	128.55
Fire & Rescue precept (Estimate)	4,103,676	58.84
Total from council tax (Estimate)	**128,055,050**	**1,836.10**

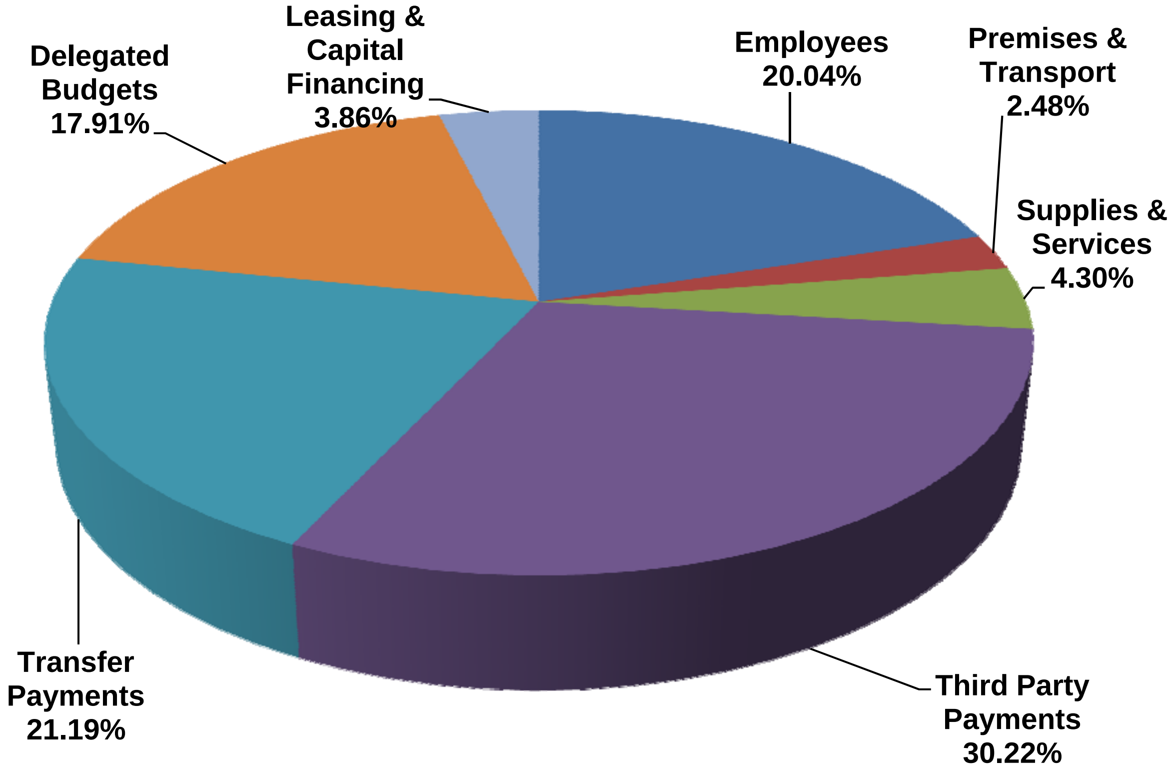
NB: based on an approved council tax base of 69,742.96 band D equivalents.

Expenditure analysis

The council analyses its expenditure by category, as referred to in **Table 3,** and illustrated in **figure 3.**

Table 3: Expenditure by Category of Spend	
Type of Expenditure	**£ million**
Employees	122.900
Premises and Transport	15.224
Supplies and services	26.410
Third Party Payments	185.365
Delegated Budgets	109.863
Leasing and Capital Financing	23.665
Transfer Payments	129.946
Total Expenditure (excluding Internal Recharges)	**613.373**

Figure 3 – Spend by Type of Expenditure

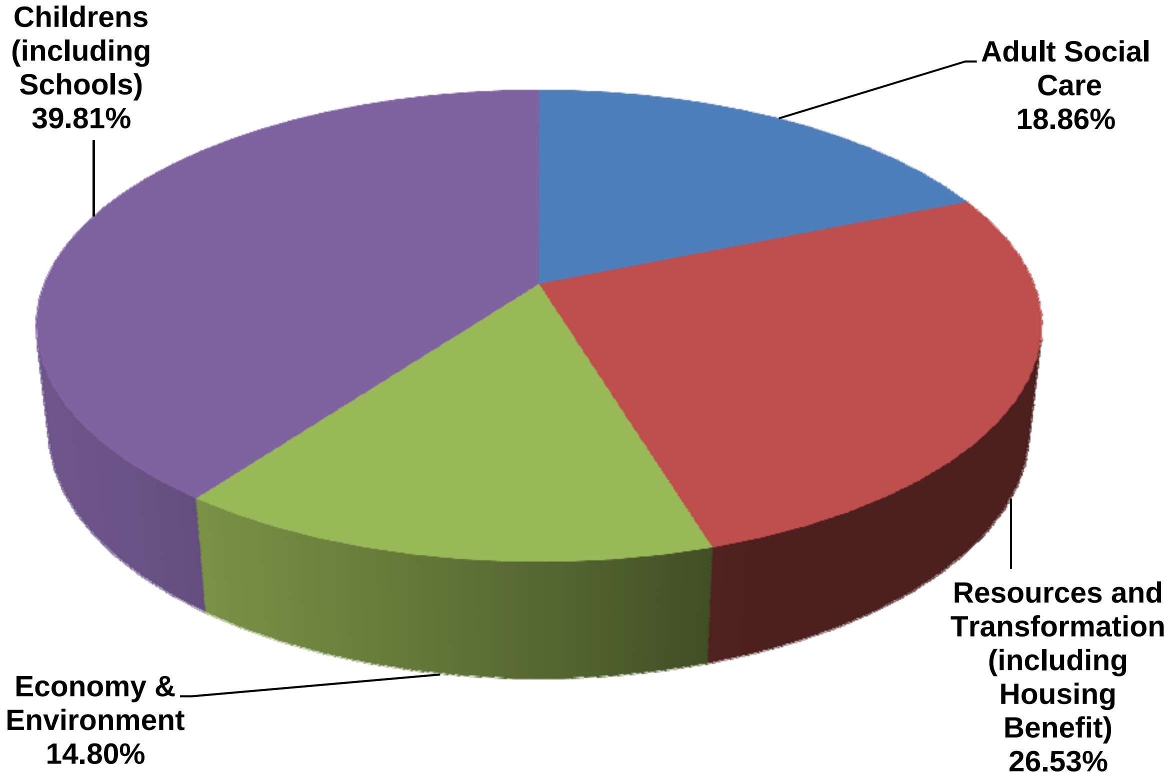


Notes

- *Transfer payments include expenditure such as special education needs, rent allowances and social services direct payments – for example payments for which no goods or services are received in return by the local authority.*
- *Delegated budgets include budgets for schools, community associations and allotments.*
- *Third Party Payments include payments to external contractors.*

The £613.373m total council expenditure is analysed by directorate in **figure 4**. For Resources and Transformation 16.00% of the 26.53% relates to Housing Benefit payments. For Children's Services 24.00% of the 39.81% relates to Schools.

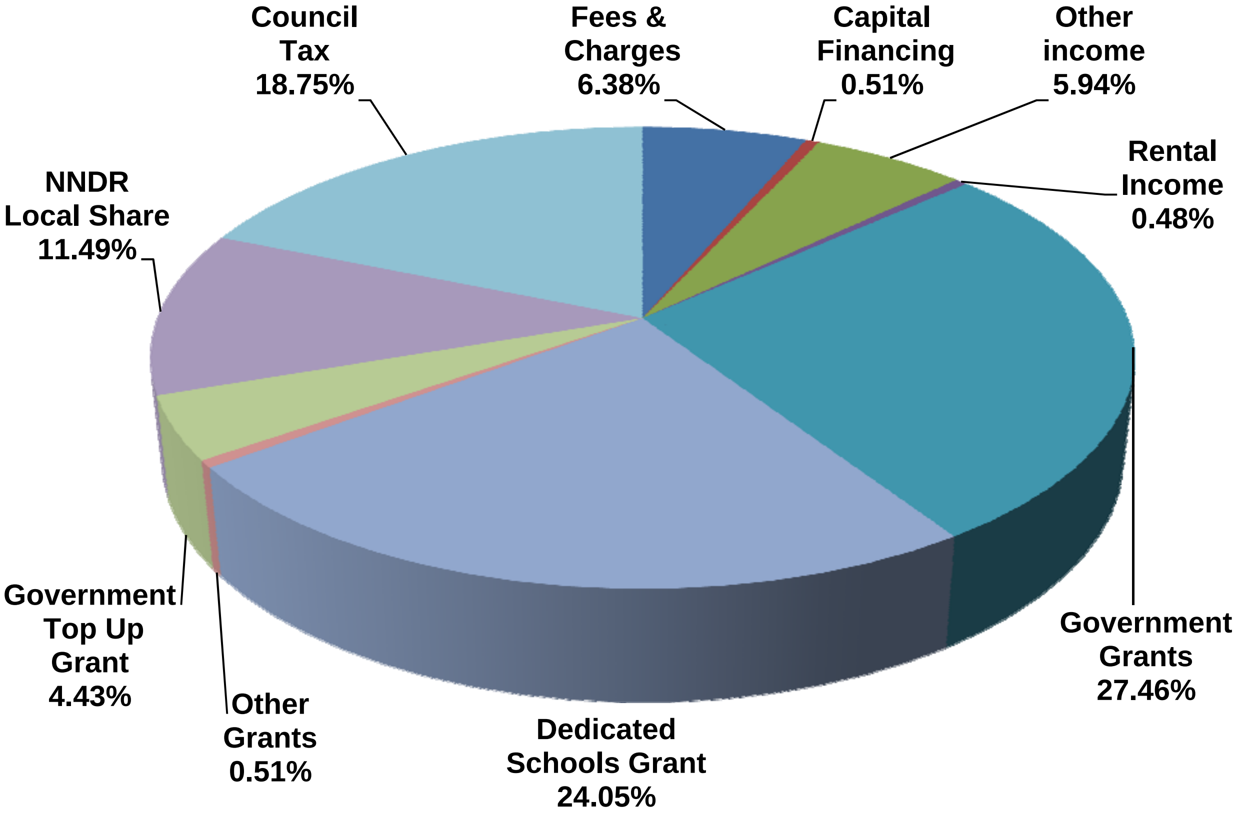
Figure 4 – Gross expenditure by directorate



Income analysis

The council receives income from a number of sources including council tax, central Government grant and specific grants to help pay for certain services including schools and social care. The council also charges for parking, use of leisure facilities and other services. In 2018/19 the council tax will account for 18.75% of total income. **Figure 5** shows all the main sources of income.

Figure 5 – Sources of funding



<u>Government central funding and business rate retention</u>

The Government provides funding to councils through a grant redistribution system (previously referred to as formula grant) which includes the redistribution of business rates collected and revenue support grant.

The Government replaced the way it funds councils with a new scheme known as Business Rate Retention (BRR) from April 2013.

By the end of this parliament the government previously announced that local government will retain 100% of business rates (as opposed to the current 49%). The local government provisional settlement for 2018/19, as announced on 19 December 2017, confirmed the movement to a next phase of business rates retention of 75% by 2020/21.

Areas that have agreed a Devolution Deal have the opportunity to be involved in a 100% business rates retention pilot, which began from 1 April 2017. This provides the opportunity to shape national thinking about the eventual scheme, and to take forward further devolution. As such Walsall, along with the other six West Midlands Authorities, is piloting the scheme from 1 April 2017. This means that Walsall retains 99% of business rates collected with the other 1% being paid over to the Fire Authority.

There is a change in funding under the 100% business rates scheme in that revenue support grant (RSG) is no longer paid to the authority. Funding will continue to be paid to the authority through a top up grant and retained business rates. Through the local government provisional settlement announced on 19 December 2017, this pilot arrangement will continue into 2019/20.

There remains considerable uncertainty in respect of the amount of income we will receive in Government funding from 2019/20 onwards, despite Government confirmation that Walsall is part of the multi-year settlement. In the Autumn budget statement announced on 22 November 2017, the Chancellor confirmed the Government's intention to reduce net borrowing from £49.9billion in 2017/18 to £25.6billion by 2022/23, lower than the target of £16.8billion by 2021/22 announced in the March Budget, along with the pledge that the government's commitment to eliminate the current deficit will move into the next parliament.

The 2018/19 final finance settlement, announced on 6 February 2018, represents the sixth year in which the BRR scheme is the principal form of local government funding, summarised as follows:-

- Business rates local share - **£70.45m in 2018/19 –** this is an estimate of what Walsall will collect and retain in business rates, this local share is not guaranteed and is based on the council retaining 99% of what we actually collect in 2018/19, as part of the pilot scheme.

  Government set Walsall a baseline figure under the business rates retention scheme of £97.602m for 2018/19 which is made up of the business rates local share and top up grant. They also set a safety net threshold of £94.674m for 2018/19. If the safety net threshold is triggered, then any income loss below the threshold is funded by government. Any shortfall between £97.602m and £94.674m has to borne by the council (99%), and fire authority (1%). Walsall is currently estimating the baseline to be £97.656m, slightly above the government baseline and so no safety net would be payable. Volatility in business rates will therefore need careful monitoring throughout the year.

- Top up grant – **£27.15m** in 2018/19. Some authorities collect more business rates than their calculated baseline funding level, and are therefore required to pay a tariff to Government in excess of their allocated share. Council's like Walsall have a greater baseline funding level than the business rates they can collect and will be paid a top up grant from Government to meet the shortfall.

The West Midlands Combined Authority is piloting 100% business rates retention from 2017/18. This will be without detriment to the resources that would have been available to individual authorities under the current local government finance regime (with any "detriment" payments funded from outside the Settlement).

Government measure local authority expenditure by "*core spending power"*. Spending power is based on each local authority's power to <u>influence and not control</u> local spending levels. This will include the council tax requirement, business rates retention, specific grants and NHS funding for social care (the latter being spend which the council may have an influence over but does not control).

Walsall's direct funding, as determined by government, represents a reduction of 5.8% from 2017/18 to 2018/19. Direct funding under the new pilot scheme, compared to funding received in previous years, is set out in **Table 4**.

Table 4 : Government Settlement funding Assessment			
	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Revenue Support Grant	**45.8**	**0.0**	**0.0**
Business Rates Baseline (99% retained from 2017/18 including effect of revaluation)	**35.0**	**69.7**	**70.4**
Top Up Grant	**33.4**	**33.9**	**27.2**
Total Government Settlement	**114.2**	**103.6**	**97.6**
Adjusted Settlement Funding Assessment	**128.6***	**114.2**	**103.6**
Grant increase/-decrease (adjusted) - £m	**(14.4)**	**(10.6)**	**(6.0)**
Grant increase/-decrease (adjusted) - %	**-11.2%**	**-9.2%**	**-5.8%**

*Adjusted to include rolled in grants

Inflationary Pressures / Financing Options / Service Cost Pressures

The revenue budget for 2018/19 includes provision for investment and cost pressures of £17.05m, as shown in **Annex 4**, which is proposed to address known service demand pressures and the prioritisation of key service investment. The following are provided for:

1. *Provision for pay and pensions (Corporate Cost pressure);*
   - An annual pay increase and provision for pay increments
   - Provision for the national living wage
   - Impact of pension auto-enrolment and tri-annual employer pensions contributions based on the latest valuation information

2. *Inflationary pressures (Corporate Cost pressure);*
   - Provision for contractual increases including utilities, care packages, etc.
   - No provision for general inflation – services are required to manage this within existing budgets

3. *Demographic changes within Adult Social Care and Children's Services (Corporate and Demand Led Cost pressures);*
   - Increases in placement costs for Looked after children
   - Increased social workers to manage down caseloads
   - Increased care package costs within Adult Social Care arising from an increased ageing population and the pressure from hospital admissions

4. *Other cost pressures (Other Service Cost Pressures);*
   - Ongoing shortfalls in income for planning, markets, building design fees, land charges, children's services and adults community charging.
   - Review of maintenance costs for council buildings.

5. *Changes in Government funding;*
   - Core funding reduced by c£95m between 2010 and 2017. There remains considerable uncertainty in respect of the amount of income we will receive in Government funding from 2019/20 onwards, despite the acceptance of a multi-year settlement. The local government final settlement announced on 6 February 2018 outlined government spending plans for 2018/19 and future years – a reduction of £5.97m in our core funding.

- Core funding via top up grant is expected to halve, from c£32m in 2017/18 to £17m in 2019/20. Due to uncertainty beyond 2020, no further reduction has been assumed for 2020/21.
- Comparison of actual business rates income compared with what the Government anticipated the council to collect, along with provision for appeals against rate valuations, means that actual income is lower than Government estimates.
- Actual income is, however, expected to rise in line with inflation.
- As 100% BRR is implemented, so the risk to the council increases, as the council will be required to fund the full cost of appeals, which have proved a significant cost to councils' to date

6. *Changes in other specific grants, fees and charges*
    - New Homes Bonus - predicted reduction of £1.15m for 2018/19 due to the grant being paid over a reduced period of 4 years plus other technical changes.
    - Public Health (PH) - predicted reduction of £930k over the next 2 years, with the grant rolling into Business Rates in 2020/21 and becoming unringfenced. It is assumed that the grant, following roll-in, continues with an annual reduction equivalent to those in 2016/17+ (c2.4% p.a.). However, as it becomes unringfenced, then there is considerable risk that it may be cut even further.
    - iBCF1 – assumed to continue beyond 2019/20, with allocations unknown. There is a risk that this may not continue or may reduce further.
    - iBFC2 – assumed to fall out in by 2020/21. Continuing activity to be funded.
    - Dedicated Schools Grant (DSG) - allocated based on schools funding formula - to be paid directly to schools from 2019/20.
    - Housing Benefit grant expected to reduce annually as we move to Universal Credit.
    - Discretionary Housing Payments - expected reduction of 20% per annum.
    - Other grants are expected to continue at current levels unless informed otherwise.

<u>Savings requirement</u>

In order to set a balanced budget, and after a review of available resources from central Government grant and local resources, and taking into account additional known and likely pressures, total revenue reductions of just under £30m were required for 2017/18. Savings of £22m were approved by Council in February 2017, and a further £7.48m has been realised from changes in council tax funding.

During 2017/18, services have been reviewing previously reported indicative plans for 2018/19 and 2019/20, and working on other options to meet the forecast financial shortfall in funding over the next four years, including the need to find savings of c£12.43m in 2018/19, whilst maintaining and optimising as far as possible, front line services to the public. In reviewing savings options, reviews of income and fees and charges have also been undertaken.

Savings proposals were reported to Cabinet on 25 October 2017, and changes referred to in the draft budget report to Cabinet on 13 December 2017. These were analysed in 2 ways:

1. **Policy Proposals** - with a direct impact on services, and which require an Executive decision to proceed, these will be referred for specific public consultation and equality impact assessment prior to any decision being made to include these in Cabinet's final budget proposals.
2. **Operational Proposals** – savings which officers have delegations to implement; examples include restructures, back office savings, operational efficiencies.

All savings proposals are summarised at **Annex 5**. The summary of investment / cost pressures are shown in **Annex 4** and the indicative cash limits by directorate at **Annex 3**. These include the outcome of consultation and equality impact assessments to date.

Table 5 below summarises savings by directorate for 2018/19 -

Table 5: 2018/19 Savings/efficiencies/income changes by Directorate			
Directorate	**Policy savings £m**	**Operational savings £m**	**Total savings £m**
Adult Social Care	(5.64)	(0.51)	(6.15)
Children's Services	(1.45)	(0.99)	(2.44)
Economy and Environment	(0.95)	(1.74)	(2.69)
Resources and Transformation	(0.07)	(0.60)	(0.67)
Corporate Savings	0.00	(0.48)	(0.48)
Total Savings / efficiencies	**(8.11)**	**(4.32)**	**(12.43)**

The £0.48m corporate savings relate to the full year effect of two savings approved in 2017/18 relating to the dividend review for Birmingham Airport and the review of the Councils debt portfolio.

Collection Fund

The collection fund is accounted for separately to the revenue general fund and accounts for income collected from council tax and business rates. In January of each financial year, an in-depth appraisal is undertaken to assess the estimated level of collection (as aggregated to include that relating to the current and previous years), the likely balance of the fund and to advise the precepting authorities (Fire and Police) of their share of the council tax surplus/deficit to enable them to take this into account in their own budget calculations. The assessment undertaken in January 2018 calculated an estimated surplus of £1.947m for Walsall in relation to council tax and a net deficit for business rates of £1.637m (total actual deficit for 2017/18 of £1.654m, less the required contribution toward the deficit of £0.017m from the West Midlands Fire & Rescue).

Referendum

In recent years central Government has capped the level of council tax rises. Capping principles are determined on a year by year basis.

Since 2012/13, each authority is required to determine whether their council tax increase requires a referendum, seeking the support of the local electorate. Schedule 5 of the Localism Act introduced a new chapter into the Local Government Finance Act 1992, making provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons.

The local government finance settlement announced on 15 December 2016 outlined plans for local authorities to relax the referendum rules on the social care precept element of the council tax (2% introduced in 2016/17) to allow local authorities to increase the precept element to 3% in 2017/18 (increase of 1%), as long as the increase over the three year period to 2019/20 is no more than 6%. Walsall increased its Social Care precept by 3% in 2017/18, and therefore can increase by a further 3% up to 2019/20.

This would mean if a local authority seeks to raise its relevant basic amount of council tax by 6% or more for 2018/19 (inclusive of 3% for Adult Social Care), local people would have the right to keep council tax bills down through a binding referendum veto.

Levies and Precepts

Table 6 shows the levy to be made on Walsall Council by the West Midlands Combined Authority for transport, and the levy by the Environment Agency.

Table 6: Levies 2018/19				
Levy	**2017/18 £**	**2018/19 £**	**Increase / (Decrease) £**	**Increase / (Decrease) %**
West Midlands Combined Authority Levy (Transport)	11,842,796	11,160,595	(682,201)	(5.76%)
Environment Agency	79,020	79,939	919	1.16%

Walsall's precepting authorities are the West Midlands Police and Crime Commissioner, and West Midlands Fire and Rescue Authorities, as shown in **Table 7** below.

Table 7: Precepts 2018/19				
Precepting Authority	**2018/19 Amount £**	**Band D 2018/19 £**	**Band D 2017/18 £**	**Band D Increase %**
WM Police and Crime Commissioner	8,965,458	128.55	116.55	10.30
WM Fire and Rescue	4,103,676	58.84	57.14	2.99

General Reserves, Earmarked Reserves and Contingencies

The council's financial strategy sets out how the council will structure and manage its finances now and in the future to ensure is to continue to demonstrate financial stability and to ensure this facilitates delivery of the council's corporate plan objectives.

The council's Statutory S151 Officer produces the Strategy, and advises on the level of reserves, in accordance with statute, best practice, professional opinion and the council's MTFS. In accordance with section 25 of the Local Government Act 2003 and to comply with CIPFA guidance on local authority reserves and balances, the S151 Officer is required to formally consider and report to members upon the adequacy of reserves in respect of the 2018/19 budget.

Additionally, this requirement covers reporting on the robustness of the estimates used for the purpose of calculating the budget.

The Government is fundamentally changing the way in which local government is funded, which increases the financial risk to the council. As such, and in accordance with statute and best practice, the level and nature of reserves have been reviewed as part of the budget process.

The MTFS requires the Council to set opening general reserves of between 1% and 2.5% of the gross revenue budget approved by Council each year, the precise level being informed by a risk assessment and to be set by the S151 officer. For 2018/19, that would equate to opening general reserves of between c£6.13m and c£15.33m.

The review of reserves has included a review of existing reserves, along with an assessment of potential future financial risks. Risks have been considered alongside the probability of each happening. This informs the S151 Officer's recommendations on the most prudent and appropriate level of reserves for 2018/19, taking into account the opportunity cost of maintaining those reserves.

The level of opening balances for 2018/19 is partially dependent on the level of closing balances for 2017/18. General balances, based on forecasts as at December monitoring, are estimated to be in the region of c£12m as at 31 March 2018. This assumes the current level of overspend does not increase.

The outcome of the review is that the current forecast level of balances required would be insufficient at this point in time to cover the major risks facing the council. The S151 Officer recommends an opening general reserve of £14.6m to cover this increased risk. It is therefore recommended that the opening level of balances is increased.

The following details general reserves as at 31 March 2017, together with proposed use of and transfer to reserves for 2017/18, and the resulting balance as at 1 April 2018, to secure the opening level of reserves recommended by the S151 Officer.

General Reserves	£m
Balance as at 1 April 2017	(13.905)
Additional Looked after Children	1.000
Use in year to fund forecast overspend	0.956
Estimated closing balance as at 31 March 2018	(11.949)
Release of specific earmarked reserves / reduction in general reserves required to fund 2017/18 overspend	(2.646)
Estimated opening balance as at 1 April 2018	**(14.595)**

This level of balances is considered prudent for a number of reasons:

- Uncertainty over the level of funding going forwards, particularly in light of the fundamental changes being undertaken in relation to central funding and business rate retention.

- The Council is not permitted to budget for a level of general reserves below that determined by the MTFS and the S151 officer.

- Balances are predicated on total savings of c£12m being achieved in 2018/19. Whilst an assessment of plans has been undertaken to ensure they are robust, if total savings are not made, balances could be below the minimum required by the MTFS, which would put the council in breach of its own rules.

Further detail is provided in **Annex 9.** That section has been written by the Council's S151 Officer, and deals with the requirements of the Act and professional guidance. Consideration of all these issues has been comprehensive and complex. **Annex 9** provides further information and signposts to the various activities, documents and other evidence that have contributed to the decision and declaration, and does not seek to reproduce them here.

3. Summary of the 2017/18 Capital Programme

The council has an asset portfolio of around £565m. Therefore managing and maintaining these assets is a key issue for the council to ensure they continue to be fit for purpose and their value is maintained. The capital programme is key to delivering the council's vision and priorities.

Due to the diverse nature of capital expenditure, each capital scheme impacts on residents in different ways according to their use of council facilities and services. The capital programme has been constructed within the principles outlined in our capital strategy. This document drives the construction and management of the capital programme. The Strategy reflects and enables delivery of the council's vision and priorities and approved schemes must deliver that aim. It also requires the council to optimise successful partnership working for example through the Walsall Partnership, NHS Walsall, registered social landlords and regionally with other councils.

The 2018/19 capital programme totals £98.63m and is presented in two parts:

- Council funded programme (£30.57m) - funded through borrowing and capital receipts (**Table 9**). Of this £0.75m is identified for council wide schemes, funding to support essential works including health and safety and other projects that cannot be guaranteed at the start of the year.
- Non-council funded programme (£68.06m) - funded from capital grants **(Table 10).**

In addition, the council's leasing programme for 2018/19 is £1.4m – revenue costs of which are funded from services own budgets **(Table 11).**

Capital resources will continue to be limited in the future inevitably placing more pressure on our ability to make future capital investment decisions. Funding will be more reliant on the council's ability to secure capital receipts from sale of land and buildings or affordable additional borrowing. A strategic review of assets is undertaken as part of the 'Asset Management' project which informs the revision of the capital strategy and formulation of future years capital programmes.

Council Funded Programme: Funded from Walsall's own resources

<u>Funding</u>
The council funded element of the capital programme is normally financed from borrowing, capital receipts and the carry forward of unspent allocations from previous years.

Borrowing going forward is required to be funded from council's own resources – generated through savings, and/or paid for via council tax. (This is also commonly known as unsupported or Prudential borrowing). Councils are allowed to borrow in accordance with the Treasury Management Code of Practice. The current capital financing / services cash limit is forecast to be able to support £20.51m of additional borrowing to fund high priority items in 2018/19.

Capital receipt projections of £1.5m for 2018/19 are based on professional estimates of property colleagues. Any additional receipts received in year (excluding those earmarked for specific schemes) will be considered to fund projects identified on the reserve list of schemes as referred to in **Annex 7**. Additionally, **Annex 8** sets out the council's Flexible

Use of Capital Receipts Strategy, which if funds allow, will utilise new receipts to fund elements of the council's Transformation Programme.

Table 8 shows currently estimated resources to fund the mainstream capital programme for the four years from 2017/18.

Table 8 : Mainstream Capital Programme (Council funded)				
Category	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Capital receipts projected	1.50	1.50	1.50	1.50
General borrowing	5.40	5.40	5.40	5.40
Borrowing for Aldridge Manor House	0.00	4.77	0.08	0.00
Borrowing for ICT schemes	0.00	3.90	1.95	0.00
Borrowing / reserves for Public Realm / Cloud	0.00	7.00	2.00	1.50
Carry forward from previous years	1.57	0.72	0.00	0.00
Use of reserves / contingency	1.10	0.00	0.00	0.00
Revenue contribution to capital	0.11	0.13	0.04	0.04
Additional borrowing / receipts	6.20	6.44	0.03	0.00
Cash Flow adjustments	0.00	0.70	(0.15)	(1.32)
Total Mainstream resources	**15.88**	**30.57**	**10.85**	**7.12**

A number of current schemes are expected to be carried forward into 2018/19, totalling £10.44m. This will be finalised at year end, and reported to Cabinet in June 2018 for approval. These schemes are summarised at **Annex 6.**

Capital Schemes

For 2018/19 services were asked to review approved schemes in 2017/18 and the expected re-phasing or underspends to help fund future capital programmes. In addition, new bids were considered in line with the Capital Strategy and council priorities. Details can be found in **Annex 7** and are summarised in **Table 9** below.

Table 9: Mainstream Capital Programme 2018/19 by Directorate (Council funded)				
Directorate	**Prior Year Approvals £m**	**Rolling Programme £m**	**New Allocations £m**	**Total Mainstream £m**
Adult Social Care	0.22	0.00	0.76	0.98
Children's Services	0.00	0.00	1.59	1.59
Economy and Environment	3.94	2.84	9.37	16.15
Resources and Transformation	3.48	0.83	6.79	1110
Centrally held budgets *	0.00	0.75	0.00	0.75
Total Council Funded Capital	**7.64**	**4.42**	**18.51**	**30.57**

**Centrally held relates to funding to support essential works, including health and safety e.g. LSVT retained housing land, asbestos removal, statutory testing, legionella, fire risk, demolition of redundant buildings, planned maintenance, risk management and self insured property damage.*

Schemes are recommended to go ahead for a number of reasons:

- Address policy including;
  - ✓ Support with cost of living
  - ✓ Creating jobs and helping people get new skills
  - ✓ Improving educational achievements
  - ✓ Helping local high streets and communities
  - ✓ Help create more affordable housing
  - ✓ Promoting health and wellbeing
  - ✓ Ensuring a modern effective council (including ICT infrastructure)
- Return on investment / Asset management - schemes that unlock external investment in the Borough; drive out long term revenue savings; support the strengthening of the borough's economy; deliver an efficient and effective operational estate linked to the asset management plan; and invests in assets to grow future income streams for the council.
- Capital insurance reserves: to protect the council's position, for which funding is available should the need arise to draw it down.
- Priority schemes for which external funding can be drawn down and which may or may not require a contribution from the councils own resources.

All capital schemes were reviewed by the Asset Strategy Group and corporate management team prior to formal approval by Cabinet for recommendation to Council. Whilst the overall demand for resources usually exceeds those available, schemes deemed to be a high priority in terms of reflecting the council's priorities can be funded, representing a balanced programme for 2018/19 with indicative allocations which are subject to further review for 2019/20 onwards.

Externally Funded Programme

Full details of externally funded schemes are found in the draft capital programme at **Annex 7** and are summarised in **Table 10** below. Many of these are indicative allocations pending formal notification from the respective funding bodies, and the capital programme will be adjusted in year to reflect final allocations. Certain schemes can go ahead as these are either fully funded by grant or have the necessary mainstream match funding already approved. If grant or mainstream funding is unavailable then the scheme will not go ahead.

Table 10: Externally Funded Capital Programme 2018/19 by Directorate

Directorate	Government Funding £m	Third Party / External £m	Total Funding £m
Adult Social Care	0.00	0.00	0.00
Children's Services	24.69	0.00	24.69
Economy and Environment	39.55	0.92	40.47
Resources and Transformation	2.90	0.00	2.90
Centrally held budgets	0.00	0.00	0.00
Total Externally Funded Capital	**67.14**	**0.92**	**68.06**

Leasing Programme

The 2018/19 leasing programme totals £1.4m, summarised in **Table 11** below. Leasing minimises the call on capital resources by spreading the acquisition cost over a number of years. Revenue funds are required to finance operating leases, and are included in the revenue budget.

Table 11: Leasing Programme 2018/19		
Directorate	**Asset cost**	**Revenue Leasing**
	£m	**£m**
Economy and Environment		
Refuse Vehicles	0.160	0.481
Light Commercial Vehicles	2.557	0.443
Tractors & Agricultural Machinery	0.061	0.198
Welfare Vehicles	0.095	0.026
Equipment	0.000	0.228
Total draft leasing programme	**2.873**	**1.376**

4. Medium term financial outlook – 2019/20 plus

Revenue

Key sources of funding, in particular fees and charges, Government grant and specific grant are assessed on a regular basis, along with emerging cost pressures. The focus is on forward planning to ensure financial risk is managed and mitigated and all known liabilities are funded, including the cost of capital investment decisions.

As referred to in section 2, by the end of this parliament the government previously announced that local government will retain 100% of business rates (as opposed to the current 49%). The local government provisional settlement for 2018/19, as announced on 19 December 2017, confirmed the movement to a next phase of business rates retention of 75% by 2020/21. Walsall Council, via the West Midlands Combined Authority has been designated a pilot for the 100% business rates retention scheme. The local government settlement for 2018/19 confirmed that pilots will continue into 2019/20.

The Government expects national increases in growth in rate yields to fully offset the reduction in core funding. The reality is that Walsall, due to its relative need and business rate yield, will be unable to fully cover this further significant funding shortfall.

Assumptions have been made in our medium term financial outlook around overall reductions to Government spending for this period, along with known cost reductions and pressures.

Beyond 2018/19, funding allocations still remain uncertain. The government have issued local authorities with indicative figures for 2018/19 – 2019/20 as part of the multi-year settlement offer. Settlement Funding Assessment figures produced as part of the 2018/19 final settlement on 6 February 2018 indicate reductions in funding of c£6m in both 2018/19 and 2019/20.

All well as proposing a balanced budget for 2018/19, Cabinet have also extended their focus to the following year, such that the budget proposals presented also cover a balanced budget for 2019/20. Further work is in hand in relation to the review of proposals for 2019/20, and for 2020/21, for which year plans are currently being developed. By focusing on the medium term, and not just 2018/19, this provides the council with a sound opportunity to plan ahead and seek to rebalance the budget to deliver its corporate plan priorities, and allows it flexibility to adapt to an ever changing climate.

Annex 3 outlines the cash limit for 2017/18, the proposed cash limit for 2018/19, subject to Council approval, and indicative cash limits for the following two years, and this is summarised in **Table 12**.

Table 12: Revenue Cash Limits by Directorate				
Directorate	**Revised 2017/18 £m**	**Indicative 2018/19 £m**	**Indicative 2019/20 £m**	**Indicative 2020/21 £m**
Adult Social Care	66.51	63.10	59.80	63.55
Children's Services	63.22	66.93	66.97	65.71
Economy and Environment	46.89	46.82	43.52	58.28
Resources and Transformation *	23.63	25.57	24.37	22.84
Net Portfolio Cash Limits	**200.25**	**202.42**	**194.66**	**210.38**
Levies	11.92	11.24	11.24	11.24
Central budgets **	(103.70)	(98.67)	(87.12)	(101.30)
Council Tax Requirement	**108.47**	**114.99**	**118.78**	**120.32**

***Includes internal recharge income of £17.39m for Central Support Services and £2.02m for Office Accommodation which are recharged to cost of services.*
**Central budgets includes direct Government funding and business rates.*

Capital

Capital programme resources are limited. The financing for capital expenditure on new investments is heavily reliant on grants and other funding received from the Government. The Government is clearly, in the medium term, planning to significantly reduce government financed capital spending.

The remaining flexibility is currently through capital receipts and borrowing. Capital receipts projections however are limited, and fully dependent on when council assets are sold. Earmarking of capital receipts beyond what we are statutorily obliged to do is not recommended without overall strategic consideration of the entire capital programme. Use of unsupported borrowing incurs ongoing revenue debt charges and impacts on council tax payers.

Capital allocations and grants from Government and other sources have not yet been published, therefore best estimates have been used, based on published information to date. Any further reduction in funding will require amendments to the draft programme.

Despite the above difficulties, significant investment is planned and funded over the three years 2018/19 to 2020/21 and the draft capital programme is balanced for each year, subject to annual review. The council is able to fund all existing commitments and has, through prioritisation of bids and resources and sound treasury management, been able to support new investment into key services, and areas of capital investment need.

The list of capital schemes included in the capital programme for 2018/19 to 2020/21 are shown in **Annex 7**. **Table 13** shows the capital programme against predicted available resources. **Table 14** summarises the capital programme by directorate.

Table 13 : Capital Programme				
Anticipated Capital Resources	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Council resources as shown in table 8	15.88	30.57	10.85	7.12
External Funding	36.67	68.06	56.22	45.27
Total capital resources	***52.55***	***98.63***	***67.07***	***52.39***
Capital Bids				
Prior Year Approvals	0.81	7.64	2.67	1.72
Rolling Programme Schemes	4.37	4.42	4.42	4.42
New capital bids	10.70	18.51	3.76	0.98
Total council funded schemes	***15.88***	***30.57***	***10.85***	***7.12***
Externally funded schemes	36.67	68.06	56.22	45.27
Total draft capital programme	***52.55***	***98.63***	***67.07***	***52.39***
Funding shortfall (surplus)	**0.00**	**0.00**	**0.00**	**0.00**

Table 14 : Capital Programme by directorate			
Directorate	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Adult Social Care	0.98	0.00	0.00
Children's Services	26.28	15.27	7.29
Economy and Environment	56.62	42.93	40.63
Resources and Transformation	14.00	8.12	3.72
Centrally held budgets *	0.75	0.75	0.75
Draft Capital Programme	**98.63**	**67.07**	**52.39**

**Centrally held relates to funding to support essential works, including health and safety e.g. LSVT retained housing land, asbestos removal, statutory testing, legionella, fire risk, demolition of redundant buildings, planned maintenance, risk management and self-insured property damage.*

Part 1 Annex 1: Summary of Corporate Revenue Budget 2018/19 by Directorate

DIRECTORATE	2017/18 REVISED FORECAST £	IN YEAR MOVEMENTS £	INVESTMENT AND PRESSURES (Annex 4) £000	POLICY SAVINGS (Annex 5) £000	OPERATIONAL SAVINGS (Annex 5) £000	2018/19 FORECAST BUDGET £000
Adult Social Care	**66,509,366**	(2,574,130)	5,313,377	(5,640,856)	(507,000)	**63,100,757**
Children's Services	**63,217,656**	1,150,048	5,002,975	(1,454,543)	(990,145)	**66,925,991**
Economy and Environment	**46,890,603**	1,622,101	995,865	(944,405)	(1,741,505)	**46,822,659**
Resources and Transformation *	**23,629,841**	807,941	1,808,730	(72,458)	(599,221)	**25,574,833**
TOTAL SERVICES	**200,247,466**	**1,005,960**	**13,120,947**	**(8,112,262)**	**(3,837,871)**	**202,424,240**
Non-service specific prudence/central items/capital financing	**(106,052,185)**	6,920,690	1,691,491	0	(478,308)	**(97,918,312)**
Levies: West Midlands Combined Authority Transport Levy	**11,842,796**	(682,201)	0	0	0	**11,160,595**
Environment Agency	**79,020**	919	0	0	0	**79,939**
NET REVENUE EXPENDITURE	**106,117,097**	**7,245,368**	**14,812,438**	**(8,112,262)**	**(4,316,179)**	**115,746,462**
(Use of)/contribution to reserves	**2,354,342**	**(3,114,888)**	**0**	**0**	**0**	**(760,546)**
GRAND TOTAL COUNCIL TAX REQUIREMENT	**108,471,439**	**4,130,480**	**14,812,438**	**(8,112,262)**	**(4,316,179)**	**114,985,916**

* Includes internal recharge income of £17.39m for Central Support Services and £2.02m for Office Accommodation which is recharged to cost of services.

Part 1 Annex 2: Council Tax Data 2018/19

1. COUNCIL TAX EXCLUDING PRECEPTS (WALSALL COUNCIL ONLY)

A. LEVELS FOR PROPERTIES WITH TWO OR MORE RESIDENTS (67% of Properties)

BAND	WEIGHT	2017/18 C.TAX	2018/19 C.TAX	ANNUAL CHANGE	ANNUAL INCREASE
		£	£	£	%
A	6/9	**1,046.90**	**1,099.14**	52.24	4.99%
B	7/9	**1,221.38**	**1,282.33**	60.95	4.99%
C	8/9	**1,395.87**	**1,465.52**	69.65	4.99%
D	**9/9**	**1,570.35**	**1,648.71**	**78.36**	**4.99%**
E	11/9	**1,919.32**	**2,015.09**	95.77	4.99%
F	13/9	**2,268.28**	**2,381.47**	113.19	4.99%
G	15/9	**2,617.25**	**2,747.85**	130.60	4.99%
H	18/9	**3,140.70**	**3,297.42**	156.72	4.99%

2. OVERALL COUNCIL TAX INCLUSIVE OF PRECEPTS

A. LEVELS FOR PROPERTIES WITH TWO OR MORE RESIDENTS (67% of Properties)

				ESTIMATE - ACTUAL T.B.A		OVERALL (INC PRECEPTS)
BAND	WEIGHT	2017/18 TOTAL C.TAX	2018/19 WMBC C.TAX	2018/19 FIRE PRECEPT	2018/19 POLICE PRECEPT	2018/19 TOTAL C.TAX
		£	£	£	£	£
A	6/9	**1,162.69**	**1,099.14**	39.23	85.70	**1,224.07**
B	7/9	**1,356.47**	**1,282.33**	45.77	99.98	**1,428.08**
C	8/9	**1,550.26**	**1,465.52**	52.30	114.27	**1,632.09**
D	**9/9**	**1,744.04**	**1,648.71**	**58.84**	**128.55**	**1,836.10**
E	11/9	**2,131.61**	**2,015.09**	71.92	157.12	**2,244.13**
F	13/9	**2,519.16**	**2,381.47**	84.99	185.68	**2,652.14**
G	15/9	**2,906.73**	**2,747.85**	98.07	214.25	**3,060.17**
H	18/9	**3,488.08**	**3,297.42**	117.68	257.10	**3,672.20**

B. LEVELS FOR PROPERTIES WITH ONE RESIDENT (25% DISCOUNT) (33% of Properties)

				ESTIMATE - ACTUAL T.B.A		OVERALL (INC PRECEPTS)
BAND	WEIGHT	2017/18 TOTAL C.TAX	2018/19 WMBC C.TAX	2018/19 FIRE PRECEPT	2018/19 POLICE PRECEPT	2018/19 TOTAL C.TAX
		£		£	£	£
A	6/9	872.02	824.35	29.42	64.28	**918.05**
B	7/9	1,017.35	961.75	34.32	74.99	**1,071.06**
C	8/9	1,162.70	1,099.14	39.23	85.70	**1,224.07**
D	**9/9**	**1,308.03**	**1,236.53**	**44.13**	**96.41**	**1,377.07**
E	11/9	1,598.71	1,511.32	53.94	117.84	**1,683.10**
F	13/9	1,889.37	1,786.10	63.74	139.26	**1,989.10**
G	15/9	2,180.05	2,060.89	73.55	160.69	**2,295.13**
H	18/9	2,616.06	2,473.06	88.26	192.83	**2,754.15**

3. SPREAD OF PROPERTIES

The proportion of properties within Walsall MBC within each Council Tax band at 1st December 2017 is as follows:

BAND	A	B	C	D	E	F	G	H	TOTAL
PROPERTIES (No)	**50,487**	**26,927**	**18,228**	**10,138**	**5,541**	**2,390**	**793**	**51**	**114,555**
PROPERTIES (%)	**44.07**	**23.51**	**15.91**	**8.85**	**4.84**	**2.09**	**0.69**	**0.04**	**100**
CUMULATIVE TOTALS	**68.58%** (A–B)								
	83.49% (A–C)								
	92.34% (A–D)								

4. WEEKLY INCREASE IN COUNCIL TAX (WALSALL MBC ELEMENT)

BAND	A	B	C	D	E	F	G	H
£	**1.00**	**1.17**	**1.34**	**1.50**	**1.84**	**2.17**	**2.50**	**3.01**

Part 1 Annex 3 : Revenue Cash Limit 2017/18 to 2020/21 by Directorate

This appendix outlines the cash limits by directorate, including portfolio responsibilities :-

1. Adult Social Care Directorate

- ***Social Care Portfolio***
  Care services for older people and people with learning disabilities, people with physical disabilities and people with mental health needs, health partnership, community meals, supporting people, protection for vulnerable adults and transition arrangements with Children Services.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening cash limit		66.51	63.10	59.80
Base budget adjustments including funding changes *		(2.57)	(4.35)	(0.53)
Investment / Pressures – see Annex 4		5.31	5.64	8.52
Less: Savings – see Annex 5		(6.15)	(4.59)	
Less: Savings required				(4.24)
Adult Social Care draft cash limit	**66.51**	**63.10**	**59.80**	**63.55**

**Increase in iBCF grant income in 2018/19 and 2019/20*

2. Children's Services Directorate

- ***Children's Services and Education Portfolio***
  Services for children in need of help and protection, children looked after and care leavers, education services, interagency cooperation, involvement of children and young people, youth parliament, children's trust arrangements, youth offending services, youth service, schools meals commissioning, transition arrangements with Adult Social Care. Adult learning, catering services.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening cash limit		63.22	66.93	66.97
Base budget adjustments including funding changes		1.15		
Investment / Pressures – see Annex 4		5.00	3.32	3.12
Less: Savings – see Annex 5		(2.44)	(3.28)	
Less: Savings required				(4.38)
Children's Services draft cash limit	**63.22**	**66.93**	**66.97**	**65.71**

3. *Economy and Environment Directorate*

- ***Leader of the Council Portfolio***
  Emergency planning, Association of Black Country Authorities and Black Country Joint Committee.
- ***Clean and Green Portfolio***
  Gateways and corridors, pollution control, waste strategy, refuse collection, recycling, street cleaning, parks and the Council's vehicle fleet.
- ***Community, Leisure and Culture Portfolio***
  Leisure and culture services including the New Art Gallery, libraries, sports and museums. Cemeteries and crematoria. public protection.
- ***Health Portfolio***
  Public health, Health and Wellbeing Board
- ***Regeneration Portfolio***
  Economic development, physical development, markets, property and asset management, Black Country Consortium, sub regional regeneration issues. Town and district centres, planning policy and local development framework. Strategic housing role. Traffic and transportation, car parks, strategic transport and highways. Business liaison and skills

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening cash limit		46.89	46.82	43.52
Base budget adjustments including funding changes *		1.62	0.61	17.19
Investment / Pressures – see Annex 4		1.00	1.23	0.31
Less: Savings – see Annex 5		(2.69)	(5.14)	
Less: Savings required				(2.74)
Economy & Environment draft cash limit	**46.89**	**46.82**	**43.52**	**58.28**

**Public Health grant expected to move into business rates retention from 2020/21*

4. *Resources and Transformation Directorate*

- ***Leader of the Council Portfolio***
  Overall responsibility for Council strategy, the corporate plan, communications and public relations, government relations and liaison with local MPs and West Midlands leaders. Strategic and operational financial management and administration, insurance, risk management, policy led budgeting. Financial Regulations, Audit, Legal and Democratic Services, Performance, Member Development.
- ***Community, Leisure and Culture Portfolio***
  Area co-ordination, community engagement and consultation, community associations, voluntary and community sectors, Community Safety, Safer Walsall Partnership.
- ***Personnel and Business Support Portfolio***
  Issues relating to governance and decision making processes including the corporate plan. HR function, shared services, including ICT, procurement, facilities management.
- ***Social Care Portfolio***
  Money Home, Job.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Opening cash limit		23.63	25.57	24.37
Base budget adjustments including funding changes		0.80	(0.09)	(0.11)
Investment / Pressures – see Annex 4		1.81	0.12	0.11
Less: Savings – see Annex 5		(0.67)	(1.23)	
Less: Savings required				(1.53)
Resources and Transformation draft cash limit	**23.63**	**25.57**	**24.37**	**22.84**

Cash limit includes internal recharge income of £17.39m for Central Support Services and £2.02m for Office Accommodation which is recharged to cost of services.

Part 1 Annex 4 : Summary of Investments and Cost Pressures

Detail of investment / cost pressure	2018/19 £	2019/20 £	2020/21 £
Adult Social Care			
Contractual inflation	1,638,000	2,489,000	2,449,000
Increase in costs relating to changes in demographics	2,576,000	2,662,000	2,752,000
Investment required to deliver Care Package cost savings	150,000	0	0
Increased cost of telecare maintenance and equipment	109,835	450,000	0
Head of Customer Transformation - Transformation Channel shift work stream	0	37,500	37,500
Community charging – review of income	839,542	0	0
Fall out of Better Care Funding - iBCF2 grant	0	0	3,280,000
Total Adult Social Care	**5,313,377**	**5,638,500**	**8,518,500**
Children's Services			
Foster Care provision	54,660	54,857	55,055
Shortfall in traded income - truancy fines	25,000	0	0
Shortfall in traded income - education psychologists	200,000	0	0
Shortfall in traded income - information services	30,000	0	0
Increase in costs relating to changes in demographics	2,655,000	1,500,000	2,000,000
Unaccompanied asylum seeking children (UASC) placement and wrap around support costs	211,360	209,884	0
Ongoing staffing resource for Children's Commissioning and Placements function to support LAC controls/savings/placement function	0	0	112,500
Increase in transition and leaving care	200,000	0	0
Increase in costs for home to school transport	130,000	130,000	0
Additional social worker posts associated with increases in LAC demand	240,000	180,000	180,000
CSC recruitment and retention programme - associated with caseload guarantees and agreed as part of 2017/18 budget setting	422,000	(254,000)	(255,000)
Education Services Grant fall out	773,529	1,500,000	0
Fall out of troubled families grant	0	0	1,029,641
Removal of Police & Crime Commissioner contribution	61,426	0	0
Total Children's Services	**5,002,975**	**3,320,741**	**3,122,196**
Economy & Environment			
Contractual inflation	222,483	227,949	233,560
Review of officer time charges to capital schemes	250,000	0	0
Shortfall in markets income	100,000	0	0
Shortfall in land charges income	25,000	0	0
Shortfall in planning income	75,000	0	0

Detail of investment / cost pressure	2018/19 £	2019/20 £	2020/21 £
Gulley Cleansing	200,000	0	0
Clinical waste collection changes	30,000	0	0
Extension of economic growth programme	0	1,000,000	0
Fall out of Heritage Lottery Fund Arboretum grant	51,000	0	0
Fall out of leasing recharge for extended vehicles	42,382	3,690	81,394
Total Economy & Environment	**995,865**	**1,231,639**	**314,954**
Resources and Transformation			
Investment in Procurement support	239,920	0	0
Restructure of Assurance function	170,819	0	0
Investment in ICT function and infrastructure support	175,862	0	0
ICT strategic & change delivery resources (supporting change)	463,432	0	0
Funding of redundant buildings costs	200,000	0	0
Elections function	250,000	0	0
Reduction in Council Tax administration grant	53,550	48,195	43,376
Reduction in Housing Benefit administration grant	75,147	68,609	62,640
ICT costs for Wyse Thin Client Technology	180,000	0	0
Total Resources and Transformation	**1,808,730**	**116,804**	**106,016**
Corporate			
Capital financing - review of debt portfolio	298,491	580,881	328,864
Borrowing costs of active living	1,393,000	0	0
Revenue implications of capital programme	0	500,000	500,000
Total Corporate	**1,691,491**	**1,080,881**	**828,864**
Total Investment/Cost Pressures	**14,812,438**	**11,388,565**	**12,890,530**

Additionally, there is £2.24m of pay and pension related investment to be allocated to services.

Part 1 Annex 5 : Summary of Revenue Savings by Directorate

All savings proposals (excluding those marked # where further consultation is required) have been consulted on and, where required, equality impact assessed. Savings reference is as per budget report to Council on 23 February 2017 and 25 October 2017. 'New' relates to new savings proposals.

Saving reference	Detail of saving / efficiency	2018/19 £	2019/20 £
Adult Social Care			
Policy			
77	Cessation of adult social care universal services – full year effect of 2017/18 approved saving	(1,032,499)	
78	Review of respite and day services – full year effect of 2017/18 approved saving	(400,024)	
79	Improving demand management for Adult Social Care	(4,208,333)	(4,072,917)
Operational			
NEW	Income contributions - new clients	(507,000)	(515,000)
Total Adult Social Care		**(6,147,856)**	**(4,587,917)**
Children's Services			
Policy			
6	Review demand for SEN transport. More provision of Special School Places will reduce transport and existing travel costs #		(200,000)
9/10	Reduction of spend on Looked after Children including those in Out of Borough Placements and reduced LAC numbers and costs	(762,044)	(1,823,044)
11	Review and reduce Children's Social Care contact service. *Deferred until 2019/20 and replaced in 2018/19 by one off operational savings. #*		(64,000)
13	Review and reduce Youth Services and align functions to the 0-19 Early Help locality model	(421,301)	(110,572)
14	Cease or identify alternative funding to support School Improvement Services	(271,198)	(135,599)
Operational			
8	General efficiencies and improved commissioning arrangements	(100,000)	
11	*One off operational savings to replace proposal 11 above.*	(64,000)	64,000
90	Reduce administrative support – Children's wide	(333,010)	(403,313)
91	Review and reduce Early Help 0-19 model		(100,000)
93	Review demand for SEN short breaks	(23,000)	(140,000)
95	Reduce agency social workers	(227,000)	(227,000)
97	Review and reduce Children's Social Care Workforce Training & Practice Development		(44,744)
99	Review and reduce Children's Youth Justice Services or identify alternative contributions	(50,000)	(50,000)
NEW	Efficiencies within Early Help	(65,000)	
NEW	Additional traded income and structure changes within Safeguarding	(42,000)	

Saving reference	Detail of saving / efficiency	2018/19 £	2019/20 £
NEW	Reduction on premature retirements budget to realign against current spend profile	(50,000)	
NEW	General efficiencies across directorate	(36,135)	(43,135)
Total Children's Services		**(2,444,688)**	**(3,277,407)**
Economy and Environment			
Policy			
16	Reduction in Public Health investment to lifestyle services #		(145,000)
17	Introduce charging for garden waste collections – *Removed and replaced with operational savings – see 17a-e below*		
19	Review HWRC site and Transfer Station provision#		(137,772)
24	Further review of waste collection #		(274,000)
34	Relocate local history centre into Lichfield Street central library – full year effect of 2017/18 approved saving	(93,405)	
35	Removal of the council's revenue subsidy to the Forest Arts	(100,000)	(185,000)
36	Removal of the council's revenue subsidy to the New Art Gallery		(50,000)
41	Reduction in public health investment in drug & alcohol treatment services – full year effect of 2017/18 approved saving *(# 2019/20 only)*	(250,000)	(500,000)
43	Reduction in Healthy Child 5-19 in school services		(100,000)
44	Re-commissioning of 0-5 services #		(400,000)
45	Reduce scope of healthy lifestyles services #		(250,000)
47	Reduction of public health stop smoking services – full year effect of 2017/18 approved saving	(200,000)	
48	Cease falls prevention service #		(295,000)
49	Reduce capacity in sexual health services #		(500,000)
50	Reduce scope of infection control services	(20,000)	(20,000)
54	Energy saving from major street lighting invest to save subject to separate options appraisal	(50,000)	(450,000)
55	Reduction in the maintenance of road signs #		(64,000)
56	Reduced maintenance of road drainage following pilot on drainage and streams #		(72,000)
57	Reduced maintenance road markings #		(31,500)
59	Additional reduction in Highways maintenance revenue budgets resulting from re-procurement of highways maintenance contract	(100,000)	
60	Increase cost of parking permits	(6,000)	(6,000)
63	Introduction of a street and road works permit scheme #	(75,000)	(25,000)
64	Redesign and reduce traffic management	(50,000)	(25,000)
73	Review of Investment portfolio #		(500,000)
Operational			
17a	Provision of a 3 weekly garden waste service for 36 weeks between March and November	(138,000)	

Saving reference	Detail of saving / efficiency	2018/19 £	2019/20 £
17b	Alternate bowling green provision following agreement with third parties	(30,000)	
17c	Additional trade waste income in excess of budget	(5,000)	
17d	Markets cleansing efficiencies	(20,000)	
17e	Planning fee increase – based on government fee changes from April 2018	(107,000)	
106	4 day working week over Monday to Friday waste collection service – full year effect of 2017/18 approved saving	(63,095)	
107	Service re-design – operational team leaders – full year effect of 2017/18 approved saving	(7,000)	
108	Reduction of Operational Manager	(48,410)	
112	Fleet services redesign		(40,000)
120	Increase Crematoria fees further (6%)	(180,000)	(180,000)
121	Registrars to cover all direct costs by 2019/20	(20,000)	(30,000)
122	Cemeteries management restructure		(70,000)
125	Staff savings within regulatory / enforcement	(100,000)	(100,000)
128	Staff savings in Public Health		(102,000)
136 / 144	General efficiencies across Planning, Engineering and Transportation	(42,000)	(10,000)
137	Full year effect of re-procuring highways maintenance contract	(50,000)	
138	Restructure lighting maintenance support	(14,000)	
140	Introduce new Asset Management practices	(25,000)	(25,000)
147	Parking warden contract re-procurement		(50,000)
155	Reductions in services provided by Economy & Environment Directorate Support	(61,000)	(50,000)
156	Operational efficiencies across Economy and Environment including management savings	(100,000)	(100,000)
157	Transformation work based on the “our assets” theme reviewing Council assets	(350,000)	(350,000)
NEW	Reduction in disposal costs	(150,000)	
NEW	Additional efficiencies in clean & green	(231,000)	
Total Economy & Environment		**(2,685,910)**	**(5,137,272)**
Resources and Transformation			
Policy			
2	Charging for Appointeeships #	(15,000)	
28	Efficiencies to be realised from transformation theme “enabling a vibrant and sustainable voluntary and community sector #		(168,795)
76	Reduction in grant to Citizens Advice Bureau	(57,458)	(45,966)
Operational			
83	Increase in income by the Insurance team	(26,313)	
87	Review and restructure in Finance and Financial Administration	(65,472)	(65,003)
88	Review of staffing in Legal Services	(31,612)	(62,433)
131	Restructure / efficiencies within Human Resources	(101,470)	(102,197)
132	Review of HR contracts – full year effect of 2017/18 approved savings	(5,250)	

Saving reference	Detail of saving / efficiency	2018/19 £	2019/20 £
133	Efficiency savings within ICT	(60,321)	
134	Efficiency savings across Procurement	(8,783)	(17,340)
158	Review & efficiencies across Money Home Job	(300,000)	(764,000)
Total Resources and Transformation		**(671,679)**	**(1,225,734)**
Corporate			
84	Dividend review – Birmingham Airport – full year effect of 2017/18 approved savings	(304,453)	(311,437)
85	Treasury management – review of debt portfolio – full year effect of 2017/18 approved savings	(173,855)	
	Channel Shift #		(5,000,000)
Total Corporate		**(478,308)**	**(5,311,437)**
Total Savings Proposals		**(12,428,441)**	**(19,539,767)**

Part 1 Annex 6 : Forecast Capital Carry Forwards from 2017/18 to 2018/19 (Council funded schemes only)

Capital project	2017/18 Budget £	Estimated Outturn £	Forecast Variance to carry forward to 2018/19 £
Adult Social Care			
Mosaic implementation (Phase 3)	747,130	480,330	266,800
Total Adult Social Care	***747,130***	***480,330***	***266,800***
Economy and Environment			
Open Water	73,650	45,000	28,650
Fryers Road sprinkler system	268,000	50,000	218,000
Library redesign - Lichfield Street hub	2,160,000	965,300	1,194,700
Replacement development mgmt ,building control & land charge ICT system	29,792		29,792
Regenerating Walsall	234,261	11,638	222,623
Rushall Olympic Football Club	5,833		5,833
Town and district centres public realm	100,000	50,000	50,000
Walsall market	1,907,243	55,000	1,852,243
Holmans strategic land acquisition	524,500		524,500
Smarter workplaces ICT	306,645		306,645
Smarter workplaces - property (Prudential)	505,281	25,000	480,281
Active Living - Oak Park (PWLB)	368,849	192,275	176,574
Saddlers Centre shopping centre	13,801,713	13,341,845	459,868
Total Economy and Environment	**20,285,767**	**14,736,058**	**5,549,709**
Resources and Transformation			
Procurement system for (HRMS) and Oracle EBS financials	719,000	33,146	685,854
Data backup system replacement	220,000		220,000
Data centre power backup	309,220		309,220
Essential investment to remove cyber attack vulnerabilities	98,000		98,000
Essential refurbishment Council's digital data storage facilities	1,224,081		1,224,081
ICT wide area network	300,000	75,000	225,000
Service improvement cyber security (Virus Protection)	81,000		81,000
Council House drainage survey	18,300	15,000	3,300
Solar PV panels	142,863		142,863
Replace open software Local Government Online	10,000		10,000
Civic Centre heating	600,000	60,000	540,000
Payment card industry data security	6,140		6,140
Council House BMS	70,000	20,000	50,000
Council House rewiring	1,000,000	20,000	980,000
Money home job core IT system	51,500		51,500
Total Resources and Transformation	**4,850,104**	**223,146**	**4,626,958**
Total capital carry forward from 2017/18 to 2018/19 (council funded schemes only)	**25,883,001**	**15,439,534**	**10,443,467**

Part 1 Annex 7 : Capital Programme 2018/19 to 2021/22 by Directorate

Capital project	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Source of funding
Adult Social Care					
Prior year approval - Mosaic Phase 3 implementation of social care case management system – roll out of financials and management of change	223,085				Council
Adult Social Care and Children's Services Mobile Working	753,537				Council
Total Adult Social Care	***976,622***	***0***	***0***	***0***	
Children's Services					
Supporting transformation - Looked after children – out of borough placements. To fund increased in borough bed capacity	150,000	150,000	150,000		Council
Supporting transformation - Looked after children – 2/3 bedroomed small residential home targeted to accommodate children per year.	60,000	60,000	60,000		Council
Pinfold Centre – relocation of Children's Services Independent Review & Child Protection conference service from The Hollies	684,630				Council
Corporate parenting contact and assessment hub – relocation of 4 locations into 1	697,571				Council
Basic Need - Estimated DfE allocation (grant)	21,616,745	11,981,629	4,000,000	4,000,000	External
Devolved Formula Capital - Estimated DfE allocation (grant)	534,800	534,800	534,800	534,800	External
Capital Maintenance - Estimated DfE allocation (grant)	2,222,387	2,222,387	2,222,387	2,222,387	External
Special Provision Fund – provision for pupils with special educational needs – Estimated DfE allocation (grant)	319,229	319,229	319,229		External
Total Children's Services	***26,285,362***	***15,268,045***	***7,286,416***	***6,757,187***	
Economy and Environment					
Prior year approval - Broadway West playing fields - refurbish/improve existing changing room provision – match funding of £150k being sought from Sport England	100,000				Council
	150,000				External
Prior year approval - Walsall Town Centre Public Realm Improvements / Markets.	1,000,000	1,000,000	1,500,000		Council

Capital project	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Source of funding
Economy and Environment Continued					
Prior year approval - Migration of existing Urban Traffic Control analogue communication network - The communications network used to control parts of the traffic signal network is in need of replacement.	185,000				Council
Prior year approval - Traffic Signals - Replacement of obsolete traffic signal control equipment – Prior year approval - the Council has a statutory duty to maintain all its traffic signal infrastructure and this provides a programme of planned pedestrian crossing replacements to ensure the safe and efficient movement of pedestrians	200,000	200,000	200,000	200,000	Council
Prior year approval - Provision of community dropped crossings along footways to permit access for wheelchairs, pushchairs and mobility scooters	20,000	20,000	20,000	20,000	Council
Prior year approval – Library redesign including relocation of Local History Centre to Central Library (£4.56m total, £2,16m in 2017/18 capital programme) plus £37k for roof repairs	2,437,000				Council
Rolling programme - Memorial Safety in Walsall cemeteries - ensuring that Walsall Council complies with statutory obligations to provide a safe environment in its eight borough cemeteries	40,000	40,000	40,000	40,000	Council
Rolling Programme - Highway Maintenance Programme – Council has a legal responsibility to maintain the highway network	2,800,000	2,800,000	2,800,000	2,800,000	Council
Replacement of obsolete analogue weather stations used to provide winter service to the highway network	40,000				Council
Open water safety schemes - signage	73,650	2,000	5,000	2,000	Council
Walsall Arboretum Extension and Country Park – infrastructure improvements		190,000			Council
Invest to save – Oak Park Active Living Centre – second artificial grass pitch – match funding being sought from Football Association	150,000				Council
	300,000				External
Invest to save – Bloxwich Active Living Centre – interactive aquatics play	30,000				Council

Capital project	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Source of funding
Economy and Environment Continued					
Mobile technology implementation for Building Control	11,500				Council
Streetly Crematorium - Installation of air conditioning units and refurbishment of public toilets		215,351			Council
Replacement of obsolete fixed site speed enforcement camera infrastructure	175,000				Council
Promotion of Community Health and Safety	120,000	120,000	120,000	120,000	Council
M6 Junction 10 road improvements in partnership with Highways England (grant)			650,000		Council
	14,260,000	14,270,000			External
Aldridge Manor House – development into a commercial opportunity for the Council to fund and own, and one that will create a rental income stream for the Council in addition to the generation of business rates and council tax	4,766,000	83,000			Council
District Town Centre Public Realm improvements	4,000,000				Council
LTP Highway Maintenance Programme – distributed by the Integrated Transport Authority to maintain our highways network (grant)	2,348,000	2,348,000	2,348,000	2,348,000	External
West Midlands Strategic Transport Plan (STP) - The programme is designed to address road safety issues, progress the Council's major scheme aspirations; and resource 'local contributions' to approved major schemes (grant)	1,283,000				External
Growth Deal - The Growth Deal will create the skills, connections and locations for further high value manufacturing success and support growth in the Black Country's automotive, aerospace and construction sectors (grant)	19,527,429	19,044,119	32,948,081		External
National Productivity Investment Fund Programme for junction and cycling improvements (grant) with additional local contribution of £459k in 2018/19 and 2019/20 (50% from Strategic Transport Plan allocation above, and 50% from council Public Realm funding above).	2,601,500	2,601,500			External
Willenhall Memorial Park artwork – external funding being sought from Heritage Lottery England	1,200				External
Total Economy and Environment	***56,619,279***	***42,933,970***	***40,631,081***	***5,530,000***	

Capital project	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Source of funding
Resources and Transformation					
Rolling Programme - Aids and Adaptations, Preventative Adaptations and Supporting Independence – Assists households to maintain greater independence and live in their homes for longer through providing low cost adaptations, and assistance with community projects to enable residents to access local services. Supports the statutory requirement to provide disabled facility grants (lifts, hoists)	750,000	750,000	750,000	750,000	Council
Disabled Facilities Grant – this project directly supports the council's statutory requirement to provide disabled facility grants (DFGs). The project has a direct positive impact on the number and subsequent varied costs to the council from the increasing level of demand for home adaptations (grant).	2,145,000	2,145,000	2,145,000	2,145,000	External
Rolling Programme - Health through warmth – continuation of project up to March 2020 – to help provide a safety net for those who can't access other funding sources, available as a loan charged on the property that is repaid upon sale or relevant transfer of their home.	75,000	75,000	75,000	75,000	Council
Prior year approval - Essential Microsoft upgrades and foundation for Office 365	225,000				Council
Prior year approval - Procurement of system for Human Resources management and Oracle financials	2,100,000	1,400,000			Council
Prior year approval - Service improvement for single mobile device management solution (in-tune platform technology)	51,000	51,000			Council
Prior year approval - Civic Centre heating	600,000				Council
Prior year approval - Redesign of school kitchens to meet health and safety, food and fire regulations	250,000				Council
Prior year approval - CCTV upgrade to equipment	250,000				Council
Walsall Council House – modern secure reception	106,000				Council
Maintaining a safe and secure environment - review of ICT infrastructure including moving data centre and some services to Cloud	5,901,000	2,949,000			Council
Darlaston Town Hall – asbestos and fire safety works	99,900				Council
Walsall Town Hall – roofing repair system	61,500				Council

Capital project	2018/19 £	2019/20 £	2020/21 £	2021/22 £	Source of funding
Resources and Transformation Continued					
High level parapet wall – Sneyd, Vernon Way	94,350				Council
Implementing the ICT strategy to support the Council's Transformation Programme	455,000				Council
Willenhall Lane travellers site - redesign to create 2 additional plots	85,000				Council
Integrated Community Equipment Store – purchase of specialised equipment as part of Better Care Fund (grant)	750,000	750,000	750,000	750,000	External
Total Resources and Transformation	***13,998,750***	***8,120,000***	***3,720,000***	***3,720,000***	
Centrally held budgets					
Funding to support essential works including health and safety, and other projects that cannot be programmed at start of year e.g. Asbestos removal, statutory testing, legionella, fire risk, statutory testing of buildings, demolition of redundant buildings, general repair and maintenance	750,000	750,000	750,000	750,000	Council
Total Centrally Held budgets	***750,000***	***750,000***	***750,000***	***750,000***	
Total Capital Programme	**98,630,013**	**67,072,015**	**52,387,497**	**16,757,187**	

Part 1 Annex 8 – Flexible Use of Capital Receipts Strategy

Background

The 2015 Autumn Statement announced a new flexibility for local authorities to use new capital receipts to fund expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years.

The flexibility is available until March 2019 and councils can only use sale proceeds realised over that period, and not existing receipts. Local authorities are required to publish their plans for the flexible use of capital receipts in a Strategy which must be approved by Full Council.

The Strategy should be approved before the beginning of each financial year. If changes are proposed to the Strategy during the course of the financial year, for example if a project is identified which can be funded using this flexibility, then the revised Strategy will require the approval of Full Council. Any revisions to the Strategy in-year must also be reported to the Ministry of Housing, Communities and Local Government.

Capital Receipts Forecast

Capital receipts projections for the qualifying period of 2018/19 are £1.5m. The majority of this funding is already committed to the capital programme and if it was put to an alternative use it would need to be replaced by other funding, such as internal or external borrowing or capital grant. However, it is proposed that, where sufficient capital receipts are generated, that new receipts are considered to be used to fund qualifying projects which would release revenue costs currently set aside to fund these projects.

Qualifying projects

Qualifying expenditure is that which is forecast to generate on-going savings to an authority's and/or to another public sector body's net service expenditure, or to transform service delivery.

Capital receipts can only be applied to fund set up and implementation costs and not on-going revenue costs. Examples include:

- Funding the cost of service restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation
- Digital investment
- Improving systems to tackle fraud and corruption
- Setting up commercial or alternative delivery models
- Investment in service reform – setting up pilot schemes
- Sharing back-office and administrative functions with other councils/public sector bodies
- Integrating public facing services across two or more public sector bodies

The Strategy is required to list each project that plans to make use of the capital receipts flexibility. An initial list of qualifying expenditure and corresponding efficiencies anticipated to be delivered are as follows:

Qualifying Projects	**2018/19 Project Cost £'000**
Project: Channel Shift Review the current ways in which customers make contact with the council, and develop recommendations for improvement, including increasing use of technology, driving down costs, improving customer service. **Efficiency:** contributing to the overall budget reduction target of £5m in 2019/20 onwards.	980
Project: Safely Reducing the number of Looked After Children ensuring that they are cared for in a family setting within their communities wherever possible (right child, right time, right place, and only for as long as is necessary). **Efficiency:** The delivery of £2.624m ongoing cost reductions (£0.762m in 2018/19 and £1.862m in 2019/20).	300

It is proposed that, where sufficient capital receipts are generated, that new receipts are considered to be used to fund qualifying projects which would release revenue costs currently set aside to fund these projects, and that authority is delegated to the Chief Finance Officer, in consultation with the Leader, to allocate new capital receipts to support the revenue costs of transformation projects which fulfil the requirements of the 'flexible use of capital receipts strategy'. These projects are currently assumed to be funded from transformation fund earmarked reserves within the Budget.

Any changes to the Strategy or list of projects will be reported back to Council for approval.

Part 1 Annex 9 - Section 151 Officer Report on the Adequacy of Reserves and Robustness of the Budget

Context

In accordance with the Section 25 of the Local Government Act 2003 ("the Act") and to comply with CIPFA guidance on local authority reserves and balances, the Section 151 Officer is required to formally report to members on the robustness of the estimates used for the purpose of calculating the budget and the adequacy of proposed reserves. The S151 Officer is appropriately qualified under the terms of Section 113 of the Local Government Finance Act 1988. In signing off this overall revenue budget report, the signature of the Assistant Director of Finance who holds the post of S151 Officer constitutes the formal declaration required under the Act that these conditions are met (based on the available information at the time of signing).

Adequacy of reserves

A minimum level of reserves must be specified in the Budget. The Council's medium term financial strategy sets a minimum level which is 1% of gross revenue expenditure for the year in question. However, Section 25 of the Act requires the S151 Officer to report on the adequacy of proposed reserves and make a recommendation on a specified level which Council is required to consider in setting the overall budget envelope.

The S151 Officer assesses and determines the appropriate level of reserves (including school's reserves), provisions and contingencies using a variety of mechanisms, including;

- Being significantly involved in the budget setting process, the annual financial cycle, and engaged in the strategic leadership of the organisation as an attendee of the corporate management team;
- The annual refresh of the medium term financial outlook. Challenging the budget at various stages of construction, including the reasonableness of the key budget assumptions, such as estimates of financial pressures, realism of income targets, robustness of plans to deliver savings, and the extent to which known trends and liabilities are provided for;
- Meetings with specific colleagues and partners to examine particular areas or issues;
- Review of financial risk assessments;
- Review of the movements, trends and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
- The use of professional experience and best professional judgement;
- The use of appropriate professional, technical guidance and local frameworks (CIPFA guidance, LAAP55, Local Government Act 73, Localism Act 2011);
- Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications;
- Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements.
- Review of the current year's financial performance in services, actions to address areas of pressure, known future service delivery changes, the level of schools reserves and the financial performance of schools.

- Review of the robustness of saving delivery plans, including capacity, to deliver saving proposals identified within the budget.

It is prudent for councils to maintain an adequate level of general reserves. They provide a buffer and mitigate against risks, such as unavoidable and unknown demand and other costs pressures which may arise in the year. In the last three financial years, it has been necessary to draw on reserves in year. Reserves allow the council to manage the impact of these and to manage change without the need for immediate reductions in services.

There is no overall formula for calculating what an appropriate level of reserves should be. Whilst the MTFS sets out a guide as to what should be a minimum level, the actual level is based on best practice guidance, best professional judgements, known risks, potential budgetary pressures and an assessment of national and local factors.

As well as sound professional judgement, a risk assessed approach is used to determine the required level of reserves and contingencies. The MTFS is annually updated and approved by Cabinet to reflect the changing environment in which we work – the latest being approved by Cabinet in June 2017. Reserves and contingencies are addressed within the Strategy, demonstrating our acknowledgement of the importance of sound governance and the priority this is given.

The level of contingency is set as follows:

- Revenue - A central contingency of between 0.1% and 0.15% of the year’s gross revenue budget will be established for each financial year, the precise level being informed by risk assessment and set by the Section 151 Officer. For 2018/19 this is to be set at £740k.
- Capital - a prudent central contingency will be set, not exceeding 10% of the annual council funded element of the capital programme requirement, to accommodate unforeseen / unbudgeted expenditure (i.e. where, due to the level of uncertainty, the financial impact is not certain at the time of setting the programme). The exact level to be determined by a risk assessment and set by the S151 Officer. The contingency will be funded either from drawing down the earmarked capital reserve or from an annual revenue contribution to capital outlay from the project reserve (subject to there being sufficient funds to replenish this at year end). For 2018/19 this is to be set at £500k.

The level of general reserves, in the same way as central contingency, is index linked to the level of the gross revenue budget and continues to be informed by an annual risk assessment. The council will have opening general reserves as required by the MTFS; the precise level determined by risk assessment.

The MTFS also sets out the authority's financial framework including, as the first of ten themes of operational principles, calls on reserves and contingencies. A key principle is that reserves should not be considered to be or used as a budget and any in-year calls on the working balance should be replenished. Services cannot approve unbudgeted expenditure on the assumption that it will be met from the working balance. This matter is reserved to the S151 Officer, in consultation with the portfolio holder for finance. A central contingency supports prudent financial management.

In recommending an adequate level of reserves, the S151 Officer considers and monitors the opportunity costs of maintaining particular levels of reserves and balances and compares these to the benefits accrued from having such reserves. The opportunity cost of maintaining a specific level of reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements. In assessing this it is important to consider that reserves can only be used once. Therefore, any use of general reserves above the lower minimum threshold is only ever used on one-off items of expenditure. The level of reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust "safety net" which adequately protects the council (a complex and multi-disciplinary metropolitan district local authority) against potential unforeseen and therefore unbudgeted costs.

In the current climate, there continues to be uncertainties around funding, particularly in light of major proposed changes to central funding and business rates in particular beyond the West Midlands pilot. In the forthcoming year, for which this report is made, uncertainties remain around the anticipated level of successful business rate appeals. The review of the level of reserves has therefore included a risk assessment of business rate collection rates and the impact of potential changes in business rate yield on the council’s budgetary position.

Additionally, the continued need to make major savings and maintaining the organisational capacity to deliver this at the required scale and pace and potential further ‘unknown’ demographic and demand cost pressures, increase the risk and therefore the need for adequate levels of reserves to be maintained in current and future years.

Government’s continued changes to the welfare system; making councils accountable for payments for crisis loans, community grants and council tax reduction scheme, ad changes to homelessness legislation and ensuing responsibilities, have placed additional risk on the council’s finances.

<u>Schools Reserves</u>

The S151 Officer, as part of this statement is required to confirm that school’s balances are adequate. In 2006/07, DfES introduced expectations on local authorities with regard to their schemes of financial management. Part of this legislation required schools to agree a balance control mechanism. This mandatory requirement was subsequently removed. Walsall Council and Walsall Schools Forum have considered the options around balance control and given the authority powers to investigate and claw back balances in excess of a specified percentage of the school budget share. Walsall Council notes that the latest Academies handbook has removed the need for balance control for many academies.

Walsall Schools Forum is mindful of value for money in all that schools do, looks for medium term financial planning and encourages an adequate working balance as part of that process. This is supported by regular reports to Walsall Schools Forum on medium term funding and more recently linking value for money and performance.

The adequacy of balances is reviewed annually by the S151 Officer. For the current financial year, 1 school has made the council aware of a potential deficit budget, however, plans are in place to support the relevant school to manage these pressures.

The levels of reserves will be kept under regular review, along with any exceptional balances. Walsall Council and Walsall Schools Forum has identified that the implementation of a new National Fair Funding Formula from 2018/19 is a financial risk.

Earmarked Reserves

The council maintains a number of reserves, earmarked for specific purposes, all of which are set at the levels required to meet future commitments. These cover:

- Council liabilities - These reserves cover expenditure where the council has a legal obligation to pay costs, such as redundancies, legal costs, business rate appeals, insurance claims, pension costs.
- Grants received in advance (where the council has received money in advance of the next accounting period or money that covers more than one accounting period), which will be spent in line with the grant conditions.
- Treasury reserves - These reserves are to minimise the impacts of interest rate changes and finance early redemption of loans to reduce the Council's future interest exposure
- Demand - These reserves are primarily to provide short term additional funding for Children's and Adult Social Care where a spike in demand will create overspends. Additionally, an amount is provided for Housing Benefits.
- Projects - These reserves are to finance service transformation, major capital projects, and regeneration of the borough.
- Schools reserves held by but not controlled by the council.

An annual review of earmarked reserves is undertaken and funds adjusted as required or released where liability is accessed as ceased.

Overall Assessment of Reserves

The minimum opening balance required @ 01.04.2018 is c£6.13million. The S151 Officer has assessed the current year's financial performance and actions taken to address underlying pressures.

In considering the above, alongside the financial risk assessment, the previous financial year's financial performance, and the significant risks and potential pressures facing the organisation, **The S151 Officer recommends that opening reserves are set at £14.6m,** and within that, set aside is made of £5.5m for demand within Children's Services and Adult Social Care. This is considered prudent, given the current pressures in the system and future uncertainty around remaining funding streams.

This is considered to be sufficient for most possible events, over the short-term i.e. for 2018/19. The council is, however, facing real and present financial challenges beyond this. In the context of this funding environment, wherever possible reserves will be built up further during 2018/19 beyond the maximum level recommended within the MTFS.

In this context, it is considered that a level of reserves set at £14.6m presents an optimum balance between risk management and opportunity cost. The S151 Officer is satisfied that the benefits accrued in maintaining these at the recommended level outweigh the potential lost opportunity from investing these reserves in other ways. This maintains a suitable and sustainable level of reserves, which include ensuring sound governance and financial stability in the short and longer term.

The above assessment demonstrates that general reserves, if set at £14.6m, will be at an appropriate level; as determined in accordance with the MTFS and the S151 Officer's professional advice. The risk assessment described elsewhere in this report has informed the established level of general and earmarked reserves. The Council follows the CIPFA guidance (LAAP 55) on the use of reserves.

Robustness of the Estimates included within the Budget

The S151 Officer has been involved throughout the entire budget process, including input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with members of the executive and overview and scrutiny, advising colleagues, challenge and evaluation activities, and the scrutiny and approval of various reports.

The budget is risk assessed to ensure adequate funding for all known liabilities and to provide sufficient resources to enable service change and transformation. It covers an assessment of current year's performance, an assessment of income targets, estimates of future cost and potential unavoidable demand pressures.

The following sections of this statement signpost to particular activities and documents and have been used by the S151 Officer in coming to his overall conclusion on the adequacy of reserves and robustness of the estimates:

Process - a robust budget process has been used in developing the 2018/19+ budget, within the overall context of the MTFS. Plans have been developed, tested and challenged by the Chief Executive and the corporate management team. The process, timetable and the overall budget framework were approved by Cabinet. The S151 Officer's nominee (Head of Finance) has reviewed the saving options and cash limits during this process to test the validity of the financial assumptions.

The current budget plan provides a balanced budget for 2018/19 to 2019/20 overall, subject to further consultation on a number of proposals for 2018/19 onwards, with c£11m of savings plans required to set a balanced 2020/21 budget. In finalising the 2019/20-2020/21 budget, clear and robust plans will need to be agreed by the Executive to go to consultation in summer 2018.

Timetable - the process commenced in spring 2016, with regulars updates being made to financial planning assumptions and a revised MTFO produced in late spring 2017. A review of draft budget options was undertaken over the summer and reported to Cabinet from August onwards, in advance of the provisional Government financial settlement. This enabled Cabinet to meet in October 2017 to consider its priorities and draft budget proposals in the context of revised estimated resources. Formal Overview and Scrutiny meetings have been held in October/November 2017 to consider Cabinet's draft budget options. The final budget is due to be set at Council on 28 February 2018.

Member involvement and Scrutiny - both informal and formal member involvement has been extensive, particularly through the Cabinet portfolio holder for finance, individual portfolio holders in conjunction with Executive Directors, and budget meetings with Cabinet. Cabinet formally considered draft budget options on 25 October 2017 and 13 December 2017. Overview and Scrutiny Committees have each had opportunity to make recommendations and comments to Cabinet, both on the services within their individual remit and the draft capital programme. Budget briefings have also been offered to each political group and independent members.

Consultation - internally and externally, has been comprehensive as outlined in this and previous reports submitted to Cabinet.

Challenge - there are various points of challenge at various stages of the budget, including throughout corporate management team and Cabinet budget meetings, meetings of various directorate management teams, corporate management team meetings, stakeholder consultation and the scrutiny process.

Budget monitoring - reports continue to be submitted to Cabinet, scrutiny panels, corporate management team, and Audit Committee and management teams across the council throughout the year. The council's employee performance review process also requires review of financial performance for individual managers who hold budget holder responsibility, complementary to the formal accountability process at Executive Director level.

Referendum – Following implementation of the Localism Act 2011, Councils are required to consult the electorate in the form of a referendum should a council wish to increase the council tax above a level prescribed by the Secretary of State. For 2018/19, this has been determined as 6% or above of the council's relevant amount of council tax.

Ownership and accountability - the budget has progressed through various filters during its construction including endorsement by management teams within services and corporate management team itself. Executive Directors are required to test and validate saving proposals and spending plans to ensure that services can be delivered lawfully within the funding envelop allocated. These officers are accountable for ensuring services are delivered within the approved budget.

Current financial position - the budget is a statement of financial intent, reflecting the council's vision, plans and priorities. It also sets the financial spending parameters for each financial year and as such, the S151 Officer assessment of the adequacy of reserves also includes the risk of services overspending and/or underspending their budgets and the impact of this on the financial health of the council and its level of reserves. The current financial position has been reported on throughout the year. The S151 Officer has reported a number of pressures within Adult Social Care and Children's Services looked after children services, with a combined overspend of £4.67m at end of quarter 3 (December 2017), equivalent to c0.8% of the council's 2017/18 gross expenditure. Mitigating action plans have been put in place and it is expected that the council will outturn around budget overall this year. Ongoing demand pressures have also been accommodated within the 2018/19 budget.

Key assumptions

The cost assumptions and prices used in the budget are derived from current intelligence and are considered appropriate. Demand changes have been identified and are reflected in budget increases identified in the appendices where appropriate, on a risk assessed basis.

Fees and charges have been reviewed and changes are reflected in the overall budget. The capital receipts and borrowing requirement to be used for the capital programme are based on professional estimates both of timing and value. Assumptions on funding, including government funding, business rate and council tax levels, inflation, income assumptions, increases in costs arising from demographics and demand, borrowing requirements, balances and contingencies, are set out within the main report and are considered appropriate.

Significant investment has been included to cover those areas of most demand and volatility, adult and children's social care.

Savings

Savings contained within the budget have been included on the basis that Directors and Portfolio Holders have confidence in their delivery. They have been subject to officer, Cabinet and Member scrutiny. Service delivery plans for large value and complex proposals have been reviewed and challenged. Responsibility and accountability for delivery rests with the relevant Director and progress will be monitored and reported throughout the forthcoming year.

Consideration of the impact of budget proposals has been taken into account in formulating this budget. Equality impact assessments have been undertaken or updated, where required.

Risks, including Strategic, Operational and Financial

In the budget, due regard is made to the strategic and operational risks facing the council. Some of these relate to the current economic condition, others to potential regulatory or national issues which may have a local impact. Estimates and forecasts include all known significant financial risks over the next year and medium term to inform spending decisions. The council continues to use an embedded good practice risk assessment approach both when setting the budget and in validating estimated outturns. This continues for the 2017/18 outturn and 2018/19+ budget.

The risk assessment has highlighted the following areas of financial risk:

- Demand – the risk of further demand, specifically in children's' and adult social care, above the levels incorporated into the budget.
- New Burdens / national policy implications on local budgets – the risk that Government changes in policy will lead to a transfer of responsibility / new burdens, without the transfer of funding to support those activities; or potential costs arising from inspections arising after the budget was set.
- Grant reductions not published or known about at the time the budget is set.
- Unbudgeted income shortfalls during the financial year.
- Unknown liabilities that may arise after the budget is set, for example from changes in legislation or statutory guidance.
- Cost pressures – i.e. inflationary pressures, pressures arising from a severe winter (i.e. gritting, gulley cleaning), pressures from economic changes. Or arising from the actions of residents (i.e. waste contamination), or arising from a major emergency.
- Delays in delivery of savings, for example, arising from challenge.

These have been assessed, and a value risk value assigned. Professional and best estimates have been made of the scope of the financial risk. Sensitivity analysis has been used where appropriate, to determine an appropriate risk value. The assessment confirms that a reserve value at the top end of the MTFS guidelines is required.

The Budget in Context

The budget includes the allocation of financial resources to different services and projects, any proposed contingency funds, the council tax reduction scheme, setting the council tax and council tax base, and decisions relating to the control of the councils borrowing requirement, the control of its capital expenditure and the setting of virement limits. The budget has been constructed in accordance with the principles and direction set out in the MTFS.

All cost pressures, efficiencies and savings have been appraised to ensure accuracy of costings and deliverability. Individual officers are identified as accountable for their implementation. The council is working to improve performance outcomes on a range of activities which are monitored throughout the year. Budget provision has been identified for the priorities outlined in the council's corporate plan.

Summary

Best endeavours have been made to ensure that the budget and reserves are adequate using the information available at this date. The budget has been constructed with a professional policy-led medium term strategic framework, using appropriate assumptions, linking investment and spending to key priorities and having undertaken a comprehensive assessment of risk.

In summary, I can confirm that, the budget as it stands is robust, taking into account the information known at this time and that the level of reserves at £14.6m is sufficient to cover known events and reasonable possible events, however should a series or a combination of unforeseen or unusual events occur, the level of reserves may be insufficient.

James T Walsh, B Hum (Hons), ACMA, CGMA
S151 Officer

Part 2 – Treasury Management

Treasury Management and Investment Strategy for 2018/19 Onwards

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments with an appropriate level of risk (as defined within the Councils Treasury Management Policies), providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is to enure approiate arrangements are in place to fund the council's approved capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy - This covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure i.e. that funded from borrowing, is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters that set out how investments are to be made and managed).

A mid-year treasury management report – This will update members on the progress of the capital plans, amending prudential indicators as necessary, and identify whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates included within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. For Walsall Council the Audit Committee undertakes this role.

1.2 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues
- capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry for Housing, Communities and Local Govenrmetn (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

1.3 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. A treasury management e-learning course is available to all Members and further specific training is then arranged as when required.

1.4 Treasury management consultants

The council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.5 Treasury management Monitoring

Local and Prudential indicators are used to monitor treasury management activities which are produced monthly and reported at least quarterly to the treasury management panel. The indicators monitored during the year are detailed in **Annex 1.**

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

The council's capital expenditure plans are the key driver of treasury management activity. The output of these plans is reflected in the prudential indicators, designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure - Prudential Indicator 1

This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are recommended to approve the capital expenditure forecasts. The financing need below excludes other long term liabilities, such as Private Finance Initiative and leasing arrangements which already include borrowing instruments within them. The current capital plans which this strategy supports are detailed in Table 1 below.

Table 1 : Current Capital Programme					
	2016/17 Actual £m	2017/18 Forecast £m	2018/19 Estimated £m	2019/20 Estimated £m	2020/21 Estimated £m
Total capital expenditure	**80.847**	**94.659**	**98.620**	**67.070**	**52.390**
Resourced by: • Capital receipts	2.016	2.500	2.200	1.350	0.180
• Capital grants	64.762	61.442	68.060	56.220	45.270
• Capital Reserves	-	-	6.000	1.000	-
• Revenue	3.118	1.880	0.130	0.040	0.040
• Borrowing	10.951	28.837	22.230	8.460	6.900
Total resources available	**80.847**	**94.659**	**98.620**	**67.070**	**52.390**

2.2 Affordability Indicators

The previous prudential code required the Authority to prepare indicators (prudential indicator 2 and 3) so that the Council could assess the affordability of its capital investment plans. Although these are no longer required under the Code, the authority still prepares these former prudential indicators as they provide an indication of the impact of the capital investment plans on the council's overall finances. Council is recommended to approve the following indicators:

Ratio of financing costs to net revenue stream – Former Prudential Indicator 2

This indicator identifies the trend in the cost of capital financing (borrowing and other long-term obligation costs net of investment income) against the council's net revenue stream.

	2016/17 Actual	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratio	5.5%	9.11%	9.6%	10.1%	10%

Incremental impact of capital investment decisions on council tax – Former Prudential Indicator 3

This indicator (shown in Table 3) identifies the revenue costs associated with the proposed changes to the capital programme recommended in the budget report compared to the council's existing approved commitments and current plans. This indicator will change during the year if the Council makes changes affecting the borrowing required to support the capital programme.

Table 3 : Former Prudential Indicator 3					
	2016/17 Actual	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Council tax - band D	£7.98	£12.90	£24.14	£9.19	£7.49

2.3 The council's borrowing need (the Capital Financing Requirement) – Prudential Indicator 4

Prudential indicator 4 is the council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure not immediately paid will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets estimated life.

The CFR does include other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of schemes include a borrowing facility within them and so the council is not required to separately borrow for these schemes. The council currently has £8.236m of such schemes within the CFR. Council is asked to approve the CFR projections in Table 4 which shows that the council's net borrowing need for the period 2018/19 to 2020/21 is estimated to see a decrease of £0.007m. The council's borrowing strategy is set out in section 4.

Table 4 : Analysis of CFR				
	2017/18 Forecast £m	**2018/19 Estimated £m**	**2019/20 Estimated £m**	**2020/21 Estimated £m**
Opening Capital Financing Requirement	335.150	356.904	367.661	363.298
Net financing need for the year				
Less MRP and other financing movements	(2.002)	(11.510)	(12.825)	(13.301)
Additional Borrowing	23.756	22.267	8.462	6.900
Movement in CFR	21.754	10.757	(4.363)	(6.401)
Closing Capital Financing Requirement	356.904	367.661	363.298	356.897

The council has maintained an under-borrowed position, which means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the council's reserves and cash flow has been used as a temporary measure. This Strategy has been prudent whilst investment returns have remained low and counterparty risk is relatively high compared to the historical position.

3. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The MRP policy (see **Annex 2**) details the council's policies for calculating the annual amount charged to revenue for the repayment of debt.

3.1 Background to Annual MRP policy Review

A local authority shall determine each financial year an amount it considers to be prudent, to be set aside for the repayment of accumulated borrowing relating to capital expenditure. This is known as the minimum revenue provision (MRP). There are four ready-made options available for calculating MRP, however authorities do also have discretion to determine their own MRP; other approaches are not ruled out, as long as the Authority is properly reasoned and justified in utilising them.

3.2 MRP Policy Objectives

- The Council shall determine for each financial year an amount of revenue provision for the future repayment of debt that it considers prudent.
- To set aside funds at a rate such that future generations who benefit from the assets are contributing to the associated debt and avoiding the situation of future generations paying for the debt on assets that are no longer useable.

3.3 MRP Policy Review 2018/19

Full Council is required to approve an MRP Statement each year. The MRP review in 2015/16 was comprehensive and approved by Council on 26 February 2016. It amended the implementation date of the MRP policy introduced in 2014/15. It was considered an appropriate and prudent approach for the council; was agreed with external auditors and is fully consistent with the statutory duty to make prudent revenue provision for the redemption of debt.

The policy statement for 2018/19 is detailed in **Annex 2** and there are no changes proposed from 2017/18.

The MRP policy is regularly monitored, and because the MRP policy has to be approved by Council each year there is an opportunity to revisit the policy, and the prudent approach utilised to set the policy, as required.

4 BORROWING

The resourcing of the capital expenditure plans set out in **Section 2** provides details of the proposed capital expenditure that will be incurred in support of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current portfolio position

The council is expected to end 2017/18 with borrowing of over 1 year length of £275m against an asset base of approximately £590m, and short term investments of between £125m and £150m. These will be proactively managed to minimise borrowing costs and maximise investment returns within a robust risk management environment. In 2018/19 estimated annual interest payments are £10.745m (£9.191m budget for 2017/18), with the increase due to planned borrowing included within the budget to take account of capital expenditure where approval to borrow was agreed by Council but this expenditure has initially been funded from cash balances. Net investment interest income for 2018/19 is estimated to be £1.524m (£0.930m budget for 2017/18), with the increase due to further investment income planned to be generated as cash reserves are replenished (linked to the increase in borrowing set out above). The net budget for capital financing in 2018/19 is £18.673m (£16.565m in 2017/18), with the increase mainly as a result of the changes set out above. The treasury management budget required for the running of the treasury management function for 2018/19 is £0.155m (£0.162m in 2017/18). By having a proactive approach to managing cash flows and investments it is estimated that investment income of £0.888m above the bank base rate will be generated.

The council's treasury portfolio position at 30th November 2017 is shown in Table 5; year end forward projections are summarised in Table 6. This shows actual external borrowing (the treasury management operations) against the capital borrowing need and operational debt, and highlights any over or under borrowing. It shows that the council's underborrowing position is expected to continue for the medium term.

Table 5 : Borrowing and Investments

	Borrowing £ m	Investments £ m	Net Borrowing £ m
31 March 2017	(266.890)	154.230	112.660
30 November 2017	(328.955)	164.368	164.587
Change in year	(62.065)	10.138	(51.927)

Table 6 : Borrowing Forward Projections			
Borrowing profile	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Under 12 months	1.795	0.000	0.000
12 months to within 24 months	10.014	0.000	0.000
24 months to within 5 years	13.016	3.000	3.000
5 years to within 10 years	66.973	84.255	89.255
10 years and above	226.658	226.658	226.658
Total Borrowing	**318.456**	**313.913**	**318.913**
Operational Debt – Prudential Indicator 6	376.096	369.190	361.414
(Under) / Over Borrowing	**(57.640)**	**(55.277)**	**(42.745)**

Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within defined limits. **Prudential Indicator 7** relates to the councils need to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the council complied with **Prudential Indicator 7** in the current year and does not envisage this indicator being breached in the future. This view takes into account current commitments, existing plans, and the proposals in this budget report. In accordance with **Prudential Indicator 8,** the council has adopted and complies with the Cipfa Code of Practice for Treasury Management.

4.2 Treasury Indicators: Limits to Borrowing Activity

The Authorised Limit for External Debt - Prudential Indicator 5

This prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt, which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is based on the requirement to set a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Council is asked to approve the following authorised limit:

Table 7 : Authorised Limit £m – Prudential Indicator 5				
	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Total	**362.390**	**442.096**	**402.190**	**361.414**

The Operational Boundary - Prudential Indicator 6

This is the limit beyond which external debt is not normally expected to exceed. It has been calculated by deducting the other long term liabilities, Birmingham Airport investment and the Local Authority Mortgage Scheme (which together total £16.951m in 2017/18) from the capital financing requirement (CFR) and then adding any expected in year cash-flow borrowing requirements.

Table 8 : Operational Boundary £m – Prudential Indicator 6				
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Total	**329.445**	**401.905**	**365.627**	**328.558**

4.3 Prospects for interest rates

The council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. The following table gives their central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into affecting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer-term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of

reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into affecting bond yields around the world.

Investment and borrowing rates

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

Borrowing interest rates increased sharply after the result of the general election in June 2017 and then after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. The policy of avoiding new borrowing by running down spare cash balances has served the council well over the last few years. However, this will continue to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances, as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

4.4 Borrowing Strategy

Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining an appropriate level of cash and a balanced loan portfolio
- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

Specific Borrowing Objectives

L1. Full compliance with the Prudential Code - **No Change**.

L2. Average maturity date between 15 and 25 years **- No Change**.

L3a. Financing costs as % of council tax requirement – **Reduced from 25% to 20%**.

L3b. Financing costs as % of tax revenues (council tax requirement and NNDR contribution) - **Reduced from 13.5% to 12.5%**.

L4. Actual debt as a proportion of operational debt range is maintained in the range 65% - 85% - **No Change**.

L5. Average interest rate for internally managed debt will reduce to **3.76% - Changed from 4.97% in view of planned Borrowing re-profiling**.

L6. Average interest rate for total debt (including other local authority debt) will be equal to or less than **3.91% - Changed from 5.06% in view of planned Borrowing re-profiling**.

L7. The gearing effect on capital financing estimates of 1% increase in interest rates must not be greater than 5**% - No Change**.

The council has historically maintained an under borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt and instead the council's cash which would normally be utilised to support the council's reserves and cash flow has been used to fund the borrowing need as a temporary measure. This Strategy has proved prudent as investment returns have been low and current levels of counterparty risk are higher than those seen historically and as such this is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Senior Finance manager responsible for Treasury Management will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any changes that are required will be reported to the treasury management panel at the next available opportunity.

4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. These limits have been reviewed. The indicators the Council is asked to approve are in Table 10 below (please note there are no changes proposed to the targets approved for 2017/18):

Table 10: Borrowing Limits	2018/19	2019/20	2020/21
Prudential Code Indicator 9 Upper limits on fixed interest rate exposures.	95%	95%	95%
Lower limits on fixed interest rate exposures	40%	40%	40%
Prudential Code Indicator 10 Upper limits on variable interest rate exposures	45%	45%	45%
Lower limits on variable interest rate exposures	0%	0%	0%
Prudential Code Indicator 11/12 Lower limits for the maturity structure of borrowings:			
Under 12 Months	0%	0%	0%
12 months and within 24 months	0%	0%	0%
24 months and within 5 years	0%	0%	0%
5 years and within 10 years	5%	5%	5%
10 years and above	30%	30%	30%
Table 10 continued: Borrowing Limits	**2018/19**	**2019/20**	**2020/21**
Upper limits for the maturity structure of borrowings*:*			
Under 12 Months	25%	25%	25%
12 months and within 24 months	25%	25%	25%
24 months and within 5 years	40%	40%	40%
5 years and within 10 years	50%	50%	50%
10 years and above	85%	85%	85%

The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

4.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling include:

- the generation of cash savings and / or discounted cash flow savings.
- helping to fulfil the treasury strategy.
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All potential rescheduling would require the approval of the treasury management panel.

5. ANNUAL INVESTMENT STRATEGY

5.1 Introduction: Changes to Credit Rating Methodology

The main rating agencies, through much of the financial crisis period from 2008 – 2015, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies began removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.

It is important to note that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in the light of changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the financial crisis when they had higher ratings than now.

5.2 Investment Policy

The council's Investment Policy has regard to the department of MHCLG Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the MHCLG and CIPFA and in order to minimise the risk to investments, the council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Counterparty limits are set through the council's treasury management practices – schedules. This year the TM policies have been reviewed to ensure that any Banking Regulation changes are appropriately reflected to make certain that the security of the council's deposits remain the highest priority whilst the council seeks a fair return for its investment. See TMP 1 section on Credit and Counterparty Risk Management paragraph h. TMP 1 also allows the undertaking of non-specified investments on the approval of the Chief Finance Officer e.g. loans to housing associations, property funds and bond issues by other public sector projects etc. The use of property funds can be deemed to be capital expenditure, and as such in some instances will be an application (spending) of capital resources. This Authority will undertake due diligence and appropriate checks, and if required, seek guidance on the status of any fund it may consider using.

5.3 Creditworthiness Policy

Approved Organisations for Investments
Only organisations that are eligible to receive investments from local authorities may be used. The council's credit worthiness policy was reviewed and approved by Audit Committee on 20th November 2017 and by Council on 8th January 2018.

5.4 The Monitoring of Investment Counterparties
The credit rating and financial resilience of counter parties are monitored regularly. The council receives credit rating information from Link Asset Services as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Senior Finance Manager and / or Finance Manager – Technical Accounting and Treasury management, and if required new counterparties which meet the criteria will be added to the list.

5.5 Investment Strategy
The general policy objective for this council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital
- Liquidity of its investments
- All investments will be in sterling
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment returns expectations. Investment returns expectations.
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

5.6 Specific Investment Objectives

The specific investment objectives below have been reviewed and amended as appropriate, in line with expected ongoing reductions in rates available.

L8. Average interest rate received on short-term interest (STI) versus 7-day Libid rate – 0.5% **- no change**

L9. Average interest rate received on:
- At call investments – **0.20% - a change from 0.30%**
- Short-term investments – **0.70% - a change from 0.75%**
- Long-term investments – **1.05% - a change from 1.20%**

L10 Average rate on at call and short-term investments will be **equal to or greater than 0.65% - a change from 0.68%.**

L11 Average rate on all investments will be **equal to or greater than 1.00% - a change from 0.77%** (including any property fund investments)**.**

L12 % daily bank balances within **a target range of 99% - a change from 98%.**

Should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

Council is asked to approve Prudential Indicator 13:

Prudential Indicator 13 Maximum principal sums invested > 364 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 days	£25m	£25m	£25m

End of year investment report

At the end of the financial year, the council will report on its investment activity as part of its Annual Treasury Report.

Part 2 Annex 1 - IN YEAR TREASURY MANAGEMENT INDICATORS TO BE MONITORED

No.	Indicator	2017/18 Forecast	2018/19 Estimated	2019/20 Estimated
PCI 1	a. Capital expenditure - Council Resources	33.217	30.560	10.850
PCI 1	b. Capital expenditure - External Resources	61.442	68.060	56.220
Former PCI 2	Estimates of the ratio of financing costs to the net revenue stream	9.11%	9.6%	10.1%
Former PCI 3	Incremental impact of capital investment decisions on council tax	£12.90	£24.14	£9.19
L.3	a. Financing costs as % of council tax requirement	15.8%	20%	20%
L.3	b. Financing costs as % of tax revenues	9.50%	12.50%	12.50%
L.4	Actual debt versus operational debt within the following range	65%-85%	65%-85%	65%-85%
L.5	Average interest rate of debt excluding other local authority debt	4.61%	3.76%	3.95%
L.6	Average interest rate of debt including other local authority debt	4.72%	3.91%	4.09%
L.8	Average interest rate received on STI Versus 7 day LIBID rate	0.50%	0.50%	0.50%
L.9	Average interest rate received on:			
	(a) At call investments	0.30%	0.20%	0.20%
	(b) Short Term investments	0.75%	0.70%	0.70%
	(c) Long Term investments	1.20%	1.05%	1.05%
L.10	Average interest rate on all ST investments. (ST and At call)	0.68%	0.65%	0.65%
L.11	Average rate on all investments	0.77%	1.00%	1.00%
L.12	% daily bank balances within target range	0.98%	0.99%	0.99%

Part 2 Annex 2

There is no change proposed

MINIMUM REVENUE PROVISION 2017/18 ONWARDS

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010, local authorities have a duty to produce an annual statement on its policy for making a minimum revenue provision (MRP).

For the financial years **2008/09** onwards the authority will be adopting the following policies in determining the MRP:

1. For any capital expenditure carried out prior to 31 March 2008 or financed by supported borrowing capital expenditure, the authority will be charging MRP at 2% of the balance at 31 March 2013 (which has been adjusted as per the 2003 regulations, i.e. net of Adjustment A), fixed at the same cash value so that the whole debt is repaid after 50 years.

2. For any capital expenditure carried out after 1 April 2008 being financed by borrowing the authority will be adopting the asset life method (option 3). This is where MRP will be based on the capital expenditure divided by a determined asset life or profile of benefits to give annual instalments. The annual instalment may be calculated by the equal instalment method, annuity method or other methods as justified by the circumstances of the case at the discretion of the Chief Finance Officer.

3. The authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction.

4. In all years, the CFR for the purposes of the MRP calculation will be adjusted for other local authority transferred debt.

5. The Section 151 officer shall on an annual basis review the level of MRP to be charged, as calculated as per paragraphs 1, 2 and 3 above to determine if this is at a level, which is considered prudent. Dependant on this review the Section 151 officer shall be able to adjust the MRP charge (the total cumulative adjustment will never exceed the calculated CFR variance of £24.6m identified when reviewing the current MRP policy during 2015/16). The amount of MRP charged shall not be less than zero in any financial year.

Finance Leases

In accordance with legislation, the council will make a MRP for finance leases equivalent to the principal payment contained with the lease terms.

Part 2 Annex 3

ECONOMIC BACKGROUND

This Economic Commentary is based upon information provided by our Treasury Management Advisors – Link Asset Services. Key topics are denoted in bold.

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this. The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to either squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.2% (+2.0% y/y), quarter 2 was +0.3% (+1.7% y/y) and quarter 3 was +0.4% (+1.6% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector**, which is seeing strong growth, particularly because of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies because of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt would hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25-34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EU. Economic growth in the EU, (the UK’s biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two-year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two-year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Part 2 Annex 4

GLOSSARY OF TERMS

TERM	DEFINITION
Authorised Limit	Level of debt set by the council that must not be exceeded.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital receipts	The proceeds from the disposal of land or other assets. Capital receipts can be used to fund new capital expenditure but cannot be used to finance revenue expenditure
Cash flow Management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
CIPFA	The chartered institute of public finance and accountancy
Counter party limits	Maximum amount that the council may lend to other institutions will vary according to size and credit rating of other intuitions.
Dividends	Sum to be payable as interest on loan.
ECB	European Central Bank
EU	European Union
EZ	Euro Zone
GDP	Gross Domestic Product – the total market value of all final goods and services produced in a country in a given year, equal to total consumer investment and government spending, plus the value of exports minus the value of imports.
IMF	International Monetary Fund – an organisation of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Investments	The employment of money with the aim of receiving a return.
Libid rate	London Interbank Bid Rate (the rate that banks are willing to borrow from each other)
LOBO	Lenders Option Borrowers Option. A type of loan arrangement.
Liquidity	How easily an asset including investments may be converted to cash.
Long Term Borrowing	Borrowing of money for a term greater than one year.
Long Term Liabilities	Amounts owed by the council greater than 12 months old.

TERM	DEFINITION
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct (“The London Code”) published by the Bank of England.
MHCLG	The Ministry for Housing, Communities and local Government – sets the Spending for Local Government
MPC	Monetary Policy Committee – group that sets the bank base rate for the Bank of England
OLA	Other Local Authorities
STI	Short term investments
Temporary borrowing	Borrowing of money for a term of up to 364 days.
Treasury management	The management of the local authority’s cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return consistent with those risks.
Treasury Policy Statement	A statement of key policies that an organisation follows in pursuit of effective treasury management, including borrowing limits and strategy.
Variable debt	This is money that has been borrowed at a variable interest rate, and as such is subject to interest rate changes.
Unsupported borrowing	Borrowing taken through the remit of the Prudential Code for which the council will not receive any government funding and will fund from own resources.