Walsall Council	**Medium Term Financial Strategy (MTFS)** **Updated : June 2018**

CONTENTS

1. INTRODUCTION

The council has been operating a medium term financial strategy (MTFS) since 1999. The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.

In practice the MTFS is very much a part of the council's mainstream activity, and whilst this document seeks to bring together in one place the major components of the strategy, in practice elements of it are evident in a range of council documents such as the corporate plan, and monitoring reports, and of course in our activities, processes and culture. The MTFS document considers a wide range of issues, under the following headings:

- Our key financial objectives
- The principles adopted in strategically planning our finances
- Our operational principles
- The identification and management of risk
- The impact of joint plans with other stakeholders
- The resulting medium term financial plan

The principles are intended to remain relatively constant thus providing a robust and consistent approach that maintains the council on a sound and stable footing, whilst enabling us to deliver better outcomes for our citizens, take out waste and radically change the way we deliver our services. Although intended to remain broadly constant, these principles will continue to be reviewed and refreshed each year to reflect our learning and our adaptation to the changing demands of our citizens.

The national and local context elements will vary more frequently and influence the baseline position and future outlook. For those reasons, these elements of the MTFS will change more substantially each year, whilst remaining true to the principles established.

Risk will be managed using our established best practice principles. Prevailing risks will be identified and managed within that framework and updated regularly, according to the nature of each risk. We also use this process to identify and maximise opportunities.

Councils increasingly operate within the wider local, sub-regional, regional and national communities; working with a range of partners and other stakeholders to deliver joint aims and objectives. It is essential, therefore, that the financial implications of joint work are considered and addressed, demonstrating how the MTFS has contributed to the delivery of the council's own vision, and those of partners and stakeholders either collectively or individually. All the above components inform the production of a medium term financial outlook (MTFO). This effectively translates the strategy into a practical plan of action for the council. The MTFO for 2019/20 – 2022/23 is currently under construction.

2. INTEGRATED PLANNING & PERFORMANCE

The Walsall Corporate Plan serves as a support or guide for the delivery and improvement of services to ensure the appropriate level of governance is maintained.

The Council exists to benefit the public, responding to their needs to ensure the delivery of effective local services. 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. This means we need to listen to the demand coming from local people and build up a thorough understanding of how we can better serve them by equipping our staff with the skills, knowledge and freedom to respond. It also means we need to look outside our own organisation and work with partners in the public, private and voluntary sectors.

The plan will be achieved through the Council improving the way it operates through an ambitious transformation programme that takes out waste, spends less, improves customer service and changes the way we do our business. This will be underpinned by good governance and upholding high standards of conduct. But as well as a specific programme of change, this is also a culture that will become embedded within the council, underpinned by five key priorities.

Our vision, objectives and priorities, underpinned by our values are expressed in the Corporate Plan 2018-2021, as approved by Council on 28 February 2018, and the Walsall Plan – Health and Wellbeing Strategy 2017-2020 as approved by Council on 22 May 2017. The corporate priorities have been refreshed and themed into five broad areas -

- **Economic Growth** for all people, communities and businesses
- **People** have increased independence, improved health and can positively contribute to their communities
- **Internal Focus** – all council services are efficient and effective
- **Children** have the best possible start and are safe from harm, happy, healthy and learning well
- **Communities** are prospering and resilient with all housing needs met in safe and healthy places that build a strong sense of belonging and cohesion

3. THE FINANCIAL FRAMEWORK

The financial framework is an integral part of our planning process and comprises a series of documents and processes which together facilitate our strategic financial planning and operational financial management. The financial framework does not exist in isolation; it is inextricably entwined with other planning processes, most notably the various levels of service planning, risk management and employee performance.

The key aspects of the financial framework are as follows:

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The responsibilities for key documents are outlined in **Appendix A**.

4. KEY FINANCIAL OBJECTIVES

A 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

1 Financial Governance and Leadership

1. Our top management will be financially literate and able to understand fully the financial environment in which the council and our partners operate. Senior management and budget holders will operate within the approved financial framework at all times.

2 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. The council will take a longer term approach to financial planning and budget setting, allowing for a more strategic focus to service re-design and savings aligned to the longer term priorities of the council. This annually updated medium term financial outlook 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 corporate plan.

3 Finance for Decision Making

1. In developing our strategic and corporate plans 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.

4 Financial Monitoring and Forecasting

1. Top management will assure itself that financial performance to date and forecast financial outturns are accurate and 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.

5 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.

The principles within which we will work to deliver our aims and objectives are described in the next section.

The budget process is illustrated at **Appendix B**, along with a glossary of terms at **Appendix C**.

5. STRATEGIC PRINCIPLES

Our strategic principles relate to how we will deliver our overarching objectives, ensure good governance, a strong control environment and consistently adopt a longer-term perspective in all aspects of financial planning.

A: LEVELS OF REVENUE RESERVES AND CONTINGENCY FUNDS

CONTEXT: The council shall maintain a prudent level of general reserves, which, in the same way as central revenue contingency, will be index linked to the level of the gross revenue budget and continue to be informed by a financial risk assessment. A prudent central capital contingency will also be established.

A1 The council will establish opening general reserves of, but not be limited to, between 1% and 2.5% of the gross revenue budget approved by Council each year.

A2 A central revenue contingency of between 0.1% and 0.15% of the year's gross revenue budget will be established for each financial year. In addition, specific earmarked reserves and provisions will be established as required, on the advice of the Chief Finance Officer (CFO).

A3 The precise level at A1 and A2 being informed by risk assessment and set by the CFO.

A4 The level of reserves and contingency will be reviewed each year by the CFO and reported to Cabinet, informed by a comprehensive risk assessment and consideration of the opportunity costs of maintaining reserves at certain levels.

B: MANAGEMENT OF FINANCIAL RISK AND OPPORTUNITY

CONTEXT: The council embraces the concept of risk and opportunity management, taking a proactive approach to the identification and management of risk to ensure we are best placed to seize the opportunities that we have.

B1 Financial activity will take place within the principles set out in the risk management strategy.

B2 In constructing and assessing the annual budget for the forthcoming year, a comprehensive financial risk assessment will be undertaken for all parts of the budget, including sensitivity analysis and active steps will be taken to manage identified risks.

B3 We will not be risk averse, and will seek to seize and maximise opportunities by the appropriate identification and management of risk.

C: INCOME

CONTEXT: The council will seek to maximise income generation potential in accordance with our priorities and receive all types of income as promptly as possible.

C1 We will develop an overarching income generation strategy and charging policy.

C2 We will seek to maximise income in accordance with the council's priorities.

C3 We will seek to promptly receive and recover all income due to us.

D: RESOURCE ALLOCATION

CONTEXT: The council will allocate resources in line with council priorities and with regard to our statutory obligations.

D1 Capital and revenue resources will be allocated according to the vision, objectives, and priorities approved by Council.

D2 Within the remit of D1 above, resources will be allocated through an options appraisal process, which has regard to: current and future required levels of service delivery and delivery methods and performance, investment needs to secure service improvement and/or invest to save, legislative changes, best practice development, affordability tests and whole life costing where appropriate, in order to demonstrate value for money.

D3 The council will demonstrate value for money by critically examining services that meet citizen demand and how they meet quality cost and delivery metrics.

D4 All Government funding intended for schools will be passed through to schools unless there is a clear objective policy decision to do otherwise.

D5 No other predetermined earmarking of revenue funding will occur i.e. unringfenced grant will be pooled centrally to meet priorities, unless approved otherwise by Cabinet.

E: ACCOUNTABILITY

CONTEXT: The council requires senior managers to formally acknowledge they recognise their responsibilities to deliver services within budget, and to implement any savings and investment allocated to their areas. Relevant members and managers are required to participate fully in all aspects of the financial processes.

E1 All senior managers (i.e.: chief executive, executive directors, assistant directors, heads of service, budget holders, etc) and members of the Cabinet are required to participate fully in budget setting and management processes.

E2 Managers are personally accountable for delivering their planned service outputs within the cash limited budget allocated to them.

E3 The council (through the CFO) will regularly review its financial management arrangements to ensure they remain fit for purpose.

F: LOCAL TAXATION AND TAX STRATEGY

CONTEXT:

In relation to local taxation (council tax), our aim is to see that our council tax is appropriate to support the provision of good quality, value for money council services.

The council's Tax Strategy puts the council's tax affairs onto a formal basis. It outlines how the council will approach its tax obligations; how it will cooperate with tax authorities, i.e. HM Revenue and Customs (HMRC); and the council's attitude towards risk in its tax dealings. The Strategy also outlines the governance and tax reporting arrangements within the council; the appropriate level of tax knowledge required across the council and how tax risks will be managed.

F1 The council will establish and maintain local tax at a level that ensures adequate ongoing income sufficient to support planned levels of expenditure.

F2 In setting the local tax level each year, the council will ensure that the annual increase is sufficient to ensure adequate resources are available to provide both the current and planned levels of service provision reflected in the annual budget and adequate specific and general reserves in the context of the medium term.

F3 The council will publish indicative increases for future years where this is required, and if not required, where this is possible and appropriate.

F4 The use of future funding mechanisms such as Tax Incremental Financing (TIF), Enterprise Zone business rate uplifts, etc. will require full analysis and approval before adoption.

F5 The council will comply with its tax obligations and will only engage in reasonable tax planning that is aligned with commercial and economic activity.

F6 The council will maintain an open and transparent relationship with HMRC.

F7 We will utilise tax incentives or opportunities for obtaining tax efficiencies where these:

- do not carry significant reputational risk or significant risk of damaging our relationship with HMRC,
- are aligned with the intended policy objectives of the government which introduced the incentives,
- do not have a material adverse impact on the councils financial position; and
- are aligned with business or operational objectives.

F8 The council will manage tax risk in such a way as to ensure that key risk areas are monitored and material risks minimized.

F9 The council will comply with the requirements of CIPFA's Standard of Professional Practice for tax management.

G: TREASURY MANAGEMENT

CONTEXT: We have a successful track record of effective treasury management, securing low cost borrowing to fund capital investment. Our aim is to continue to do so within the requirements of the prevailing policies and Codes of practice.

G1 All borrowing and/or investment activity will be carried out in accordance with the Prudential Code, the Code of Practice for Treasury Management, the council's approved Treasury Strategy and treasury policy statements and within approved prudential indicators, having the highest regard for prudence, affordability and sustainability in the longer term.

G2 The overriding investment strategy will be to protect the principal, ensuring liquidity, whilst minimising risk. Maximising yield will always be subsequent to these.

G3 Appropriate use will be made of the Prudential Code for capital investment within approved prudential indicators and subject to medium term affordability and sustainability.

G4 The treasury management panel, chaired by the CFO will oversee this and report on performance regularly to Cabinet. This will include prudential indicators, financial health indicators, borrowing and investment performance and outturn against budget.

H: CONSULTATION

CONTEXT: The council consults with stakeholders in advance of the budget being set, the outcomes of which are used to inform the final budget.

H1 Residents, service users, business ratepayers, employees' and their representatives, and other stakeholders will be consulted on the budget.

H2 An equality impact assessment will be conducted both for individual service policy and organisational structure changes prior to submission of the budget to full Council for approval. Cumulative impact will be assessed. Actions arising from those assessments will be implemented, and corporately monitored.

I: CAPITAL PROGRAMME

CONTEXT: The capital programme represents, in financial terms, the council's capital investment priorities. This is a complex, regulated area and is governed by a defined Capital Strategy and guidance. The council has comparatively limited council funds available for capital investment and therefore will focus on use of external and match funding to maximise a range of funding sources and the use of the Prudential Code, where appropriate and affordable, to deliver the council's objectives.

I1 The capital programme will be constructed in accordance with the principles outlined in the council's approved Capital Strategy, and aligned with the corporate Asset Management Strategy.

I2 Borrowing limits will be in line with the advice of the CFO and the Treasury Management Strategy approved by full Council.

J: INTERNAL CONTROL AND REPORTING

CONTEXT: The maintenance of a sound governance framework and internal control environment is paramount, and the council has worked hard to embed good corporate governance. Within the prevailing internal and external protocols and guidance we will strive to deliver best practice in this important arena.

J1 The council will re-affirm the Local Code of Governance.

J2 The council will maintain at least an adequate overall internal control environment.

J3 The council will maintain a fit for purpose overarching financial governance framework as set out in this MTFS and ensure it is kept up to date as appropriate, to reflect the changing financial environment and best practice.

J4 The Internal Audit service will provide an annual opinion to those charged with governance, on the overall internal control environment and this will be used to inform the Annual Governance Statement (AGS). The AGS will report on the overall effectiveness of the internal control environment, including any areas for improvement and plans to address these.

J5 Financial monitoring and reporting will be undertaken in accordance with the budget management and control framework and in line with the published corporate financial monitoring and reporting timetable. The council will report on the current and estimated year-end financial position, including progress against investment, efficiency and savings targets at regular intervals to both members and management.

J6 The council will publish each year an annual statement and summary accounts that provide stakeholders with a clear statement of the operating and financial performance of the council compared to targets.

J7 The council will publish on a quarterly basis a set of financial health indicators that are readily available to all stakeholders.

6. OPERATIONAL PRINCIPLES

Our operational principles relate to how the council will conduct its day to day business in financial terms. These are set out below:

K: CALLS ON RESERVES AND CONTINGENCIES

K1 The central revenue and capital contingency will be allocated under the delegated authority of the CFO, in accordance with prevailing designated criteria set out in the budget management and control manual.

K2 Services are required in the first instance to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets in any particular year, only seeking allocations from general reserves and contingencies where this is proven to be impossible.

K3 If general reserves are committed during a financial year, alternative savings will be identified and implemented in order to both mitigate the impact and replenish the general reserves in-year as much as possible.

K4 Any use of general reserves in a particular year by an individual service that is not replenished in that year of account may be paid back in the following financial year, by the identification and implementation of savings and efficiencies. It is recognised that on occasions this will be achieved over more than one financial year; this will be permitted only on the prior agreement of the CFO and be referred to as a “licensed deficit”.

K5 Any calls on the use of general reserves, which will take reserves below the minimum level required in the MTFS, are required to be reported to Council for consideration and approval. Council will take advice from the CFO before committing any expenditure that would take reserves below the minimum required.

K6 Calls on general reserves above the minimum but below the maximum level required in the MTFS (A1 under Strategic Principles) can be allocated by Cabinet, following written confirmation from the CFO that the intended use is appropriate and subject to K2-K4 above.

K7 General reserves above that required by the MTFS will be appropriately and prudently earmarked in-year or at year-end by the CFO, in consultation with the Cabinet member with responsibility for finance.

L: WORKING WITH PARTNERS

L1 The MTFO will reflect partnerships and other arrangements to give an overall picture of funding, as appropriate.

L2 Any one-off and/or ongoing council contributions to the funding of and/or support in kind to partnership working will always be on the basis of:

- a clear policy decision to do so (approved by Cabinet) rather than by default.
- the existence of a formally agreed service level agreement (SLA) and (where appropriate) agreement to the accountable body protocol.
- the existence of a clear, robust and achievable exit strategy at the point of consideration for approval of any funding and/or support. The council will not automatically undertake to fund any ongoing additional costs at the end of any time-limited external funding of any kind.

M: BUDGET AND FINANCIAL MANAGEMENT PROCESSES

M1 The detailed principles applying to all aspects of financial management, including monitoring, operation of virement rules, reporting, internal control, etc. are set out in the council's Constitution and budget management and control manual. Council managers and employees are required to adhere to the principles set out within these.

M2 The annual budget process will be governed by the annual budget framework approved by Cabinet.

N: INCOME

N1 When acting as accountable body for grant funding, the council will at all times operate in accordance with its agreed practices, including complying with the grants manual and accountable body protocol.

N2 A detailed policy-led review of fees and charges at least once every two years, according to the corporate framework outlined in the budget management and control manual.

N3 Each review will be undertaken within the requirement of a total cost recovery approach or as determined by statute or regulations i.e. building control income.

N4 Any requests by services for use of surplus income will be considered using the councils existing windfall protocol and carry forward protocol and will be subject to a council wide outturn within budget.

N5 All one-off, unplanned “windfall” income will be returned to the corporate centre and pooled for the “corporate benefit” and will not be utilisable by the service, unless prior approved by Cabinet. It's use will be determined by the windfall protocol, the details of which are set out in the budget management and control manual.

N6 The windfall protocol requires windfall income to be pooled centrally. A proportion of the resulting fund is transferred at year end (subject to the council outturning within budget) to the project reserve. The remaining proportion is to be utilised to manage volatile areas of spend and/or new pressures in year. The exact proportion within each is to be determined by a risk assessment and set by the CFO in consultation with the portfolio holder for finance. The detailed arrangements for managing and utilising this, is to be set out in the budget management and control manual.

O: COMPARATIVE SPEND & PERFORMANCE

O1 Comparative spend and benchmarking data will be used to inform the budget setting process, where this is appropriate (and available). The demonstration of public value and value for money will be from a quality, cost and delivery matrix.

P: CAPITAL PROGRAMME

P1 The annual capital programme will be approved alongside the revenue budget and all known revenue costs arising out of capital spend will be included in the revenue budget.

P2 The capital programme will be compiled using bids submitted by services, with the bids being prioritised and approved according to the council's vision and priorities and within the context of the council's Capital Strategy.

P3 In addition to the annual capital programme, a prudent capital 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 of the capital contingency is to be determined by a risk assessment and set by the CFO in consultation with the portfolio holder for finance. The contingency may be funded from an annual revenue contribution to capital outlay from the project reserve, or capital resources.

P4 As an incentive, a small proportion of newly identified usable (non-ringfenced and/or not subject to secretary of state approval) capital receipts (i.e.: up to 10% of the usable/non-ringfenced element only) are permitted to be recycled to projects either within the geographical area or service from which the receipt arises, with approval for any such earmarking being sought in advance from Cabinet.

P5 Where there is a statutory obligation to ring-fence receipts (e.g. playing fields or allotments) for a specific purpose, these receipts will be treated as specific, earmarked receipts. The spending allocation for these receipts will be required to be approved by Cabinet.

P6 In exceptional circumstances, earmarking may occur where there is a specific proven business case, approved in advance by Cabinet.

P7 Other than P4, P5 and P6 above, no other earmarking or underwriting of capital receipts is permitted in the interests of prudent corporate financial management and to enable corporate allocation using our policy-led medium term principles and in accordance with the capital strategy.

P8 Reallocation of existing capital funding within years is permitted, subject to compliance with the Constitution, Finance Rules, and CFO delegations and as set out in the budget management and control manual, provided that funds are guaranteed to be available and that the allocation aligns with the council's defined priorities.

P9 Where applicable, reserve list items approved by Cabinet and in priority order, are permitted to be started should funds become available, for example, by services reporting underspends and returning these back to the corporate centre.

P10 Prudential borrowing can be used in the following circumstances:

- For schemes of strategic importance to the council, approved in advance by Cabinet and where a defined revenue stream is identified to fund the repayment of principal and interest.
- To cover temporary cash flow requirements in advance of a capital receipt, approved by Cabinet in advance.
- To support one-off invest to save schemes where there is an identifiable net saving to be gained, with an acceptable payback period.

P11 Borrowing under P10 and the Council's borrowing limits must be in line with the advice of the CFO and the prevailing guidance in the Treasury Management Strategy and policy statements.

P12 The Council will establish a Flexible Use of Capital Receipts Policy and make use of this where it is appropriate and prudent to do so.

Q: BUDGET REALIGNMENT

Q1 All budget realignment will be undertaken within the framework identified throughout this strategy document.

Q2 All potential budget reductions will be fully financially and operationally appraised and risk and impact assessed before approval and any one off delivery costs identified and reported alongside the reduction.

Q3 All approved budget reductions will be implemented according to a pre-determined delivery plan.

Q4 Each approved budget reduction will be allocated to a named individual who is accountable for the planning, implementation and delivery of that budget reduction in the timescale required.

Q5 Where it is determined in-year that a budget reduction cannot be fully implemented, the accountable manager will implement a corrective action plan and, where required, seek alternative offsetting reductions.

Q6 Any proposed investment funding will be fully financially and operationally appraised and risk assessed before approval.

Q7 All approved investment funding will be implemented according to a pre-determined implementation plan.

Q8 All approved investment funding will be allocated to a named individual who is accountable for its planning, full implementation and post implementation review in the timescale required.

Q9 The investment will be held centrally until implementation has commenced. Where it is determined in-year that a budget investment cannot be fully implemented, the investment will be returned to the corporate centre in the year that it occurs, except where this is due to genuine slippage, as determined by the CFO.

Q10 Revenue and capital budget realignments in year can be undertaken subject to compliance with the Council's Constitution, Finance rules (virements) and CFO delegations.

R: CONSULTATION

R1 This will be achieved using the most appropriate methods, which may include opinion polls, questionnaires, focus groups, residents panels, presentations, the website and other methods and media, in accordance with the council's consultation strategy.

S: CARRY FORWARD PROTOCOL

S1 A carry forward protocol will be used to reward sound budget management, by allowing the carry forward of *planned* revenue underspends and/or achieved revenue savings, up to a maximum of 50% of said underspend/saving, excluding the use of windfalls/ unplanned underspends/savings. This is dependent on achievement of planned service delivery targets/ outcomes and no overspends appearing elsewhere within the service and a balanced position council wide at year end.

S2 Where it is proven that expenditure originally planned to fall in the previous year will now fall into the next year for sound operational reasons, up to 100% (dependent on requirements) will be permitted to be carried forward. This will be permitted to be spent on that item only and any excess not required will be returned to corporate reserves.

S3 Where it is clearly demonstrated that an overspend has occurred for any operational service reason and/or financial management reason, between 25% and 75% of the overspend may be carried forward into the following year. The percentage will depend on the ability to recoup, the nature of the service, the track record of the relevant service, and the reason for the overspend. This would not be applied where it can be clearly demonstrated that the expenditure was unforeseeable at the time the budget was set and beyond the control of the individual manager or the directorate management team, and where the directorate had made robust attempts to mitigate its impact.

S4 For capital projects, ‘carry forward’ is a means for carrying forward budgets from one year to another to cover definable commitments that have moved from one year to another, and not a means to carry forward underspends.

S5 Any carry forward request, both revenue and capital, needs to be approved by the CFO in consultation with the portfolio holder for finance, and evidence will need to be presented on what the defined commitment is.

T: PERFORMANCE MANAGEMENT

T1 The delivery of required service outcomes and the achievement of financial performance will be reviewed by line managers as an integral part of the council’s performance management framework through various mechanisms including but not restricted to: service plan reviews, EPR’s and performance boards.

T2 The principles outlined throughout this document will be used as objective measures of managers’ performance.

7. THE IDENTIFICATION AND MANAGEMENT OF RISK

Walsall council has long embraced risk management as an integral and important part of its business processes. The concept and practices are a key element in the management of the council and it is an integral part of our governance culture.

The principles of corporate governance apply as much (if not more) in the public sector as they do in the private sector in exercising our community leadership role, working with a wide range of partners, providing diverse and sensitive services and making decisions that impact on the lives of residents, visitors, businesses and other stakeholders.

The council will continue to use the risk management framework to identify, analyse and manage the risks associated with our activities with the objective of:

- Providing objective information to decision makers;
- Reducing health, safety and environmental risks as far as reasonably practicable;
- Minimising financial and reputational losses;
- Maximising opportunities;
- Identifying cost effective risk treatment options.

The councils approach to risk management is set out in its corporate risk management strategy (CRMS) which designates responsibility for the management of risk across all members and officers of the council and was updated and approved by Audit Committee on 15 January 2018.

The responsibility for ensuring that the council meets its statutory requirements as stipulated in the Account and Audit Regulations 2015 rests with the CFO, with oversight provided by the Audit Committee, together with the responsibility for reviewing the mechanisms for the management and assessment of risk; giving assurance about the process and ensuring that corporate business risks are being identified and actively and effectively managed. A set of risk registers is maintained which are structured and reported as follows:

ELEMENT	REPORTED TO	FREQUENCY
Corporate Risk Register (CRR)	Corporate Management Team (CMT) Audit Committee and Directorate Leadership team	2 - 4 times per year 2 - 4 times per year
Directorate Risk Registers	Directorate Leadership Teams	Quarterly

The CRR is reported to Audit Committee, which selects risks for further scrutiny. Directorate risks are reviewed and discussed at directorate management teams/performance boards. Directorate risk registers are obtained quarterly and CMT receive details of all of the directorates' top risks and consider any for evaluation onto the CRR.

Risks are evaluated both within regular financial monitoring reports to Cabinet and CMT and within the annual budget report to Cabinet and Council. The CFO uses this risk assessment to inform his decision on the appropriate levels of general reserves, contingencies and specific reserves.

8. NATIONAL POLICY, FINANCIAL CONTEXT AND MEDIUM TERM FINANCIAL OUTLOOK

Financial Context

The council continues to be financially stable in the normal local government context, however it is experiencing, as other local authorities are, an extremely challenging financial position. The 2018/19 budget was set using our long standing policy-led approach which delivered a balanced budget with a council tax increase of 4.99% (2% of which relates to a precept for Adult Social Care as announced in the Local Government settlement in December 2016 – which allow local authorities to increase the precept element by 3% each year, as long as the increase over the three year period to 2019/20 is no more than 6%). A detailed financial risk assessment was undertaken to appraise and manage the potential impact of various demands on the budget.

Spending Review and Multi-year Settlements

Spending reviews set government departmental budgets over several years. It is then up to departments to decide how best to manage and distribute this spending within their areas of responsibility.

Local Authorities have experienced significant and sustained reduction in government funding since 2010 and continue to face severe financial pressures for the foreseeable future. Total reductions in central Government funding for the eight years from 2010/11 to 2017/18 for Walsall equate to c£95m (c47%). More specifically the council is expecting to manage:

- Continued reductions in core government grant funding
- Increased demand for services, including significant demand in adult social care and looked after children
- Limited scope to increase council tax and fees and charges
- Increased corporate costs, including in relation to pay and pensions

Financial planning for these reductions has been made more difficult because of the volatility and uncertainty around the timing of these reductions. The government have issued local authorities with indicative figures for 2018/19 and 2019/20 as part of the multi-year settlement offer to the end of the current spending review. Current assumptions are that funding is maintained at 2019/20 levels.

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
NNDR Top Up grant	32.569	27.154	17.698	17.698	(14.871)
Total Cash Limit	**104.540**	**97.654**	**91.932**	**91.951**	
2018/19 Reduction		**(6.886)**			
2019/20 Reduction			**(5.722)**		
2020/21 Reduction				**0.019**	
Total Reduction					**(12.589)**

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 (along with other six West Midlands Authorities). This will mean that Walsall will retain 99% of business rates collected with the other 1% being paid over to the Fire Authority. 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.

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.

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.

The next CSR is expected in 2019 to confirm funding beyond 2019/20. This is expected to include the impact of the Governments Fair Funding review of the current complex system of funding local government, currently being consulted on.

The aim of the Fair Funding review is to 'set new baseline funding allocations by delivering an up to date assessment of relative needs and resources, using the best evidence available'. The review will:

- Set new baseline funding allocations for authorities
- Deliver an up to date assessment of the relative needs of authorities (which will be used in a redistribution of business rates)
- Examine the relative needs of authorities
- Only look at services currently funded through the government settlement
- Be developed collaboratively including careful consideration of transition

Medium term Outlook

The council produces and regularly updates a medium term financial outlook, which integrates current expenditure plans and investment programmes with cash-flow and balance sheet projections, and which supports the council's corporate plan.

Our latest monitoring reflects many national and regional spending patterns. As with all councils and public sector organisations, there are pressures in current and future years that need to be funded. A particular issue for us is the Government funding reductions mentioned above, alongside the as yet not fully known impact of recent and future expected Welfare Reforms. Alongside this, the implementation of the referendum requirement and a reduced income yield available from council tax restricts our ability to generate income overall to offset cost pressures.

The starting point for the MTFO is the approved 2018/19 base budget and provisional estimates for future years. These are currently being updated to reflect currently available information. In particular the following assumptions are used:

- A focus on a policy-led budget setting approach using corporate priorities established by Council
- Provision for inflationary increases on contracted services and pay related pressures to all services.
- Levies to West Midlands Combined Authority Transport and Environment Agency are based on up to date soundings.
- All education schools spend and resulting budget pressures are to be funded via dedicated schools grant and other specific education grants where applicable.
- Business rates continues at the current rate, although there is no guarantee that existing income levels will be maintained.
- Account will be taken of changes to the council tax base and collection rates. Council tax collection rates are assumed to be 97.8% (for budgetary purposes).
- Full year effect of previous years approved savings are achieved.
- Sensitivity analysis will be conducted on our key activities and the impact, if any, on the outlook.

The medium term outlook is currently being re-assessed, with a number of planning scenarios available. The most up to date information suggests savings of c£20m will be required in 2019/20, and a further c£11m in 2020/21 for which government has not published funding figures, and therefore subject to review.

KEY DOCUMENTS – RESPONSIBILITIES **APPENDIX A**

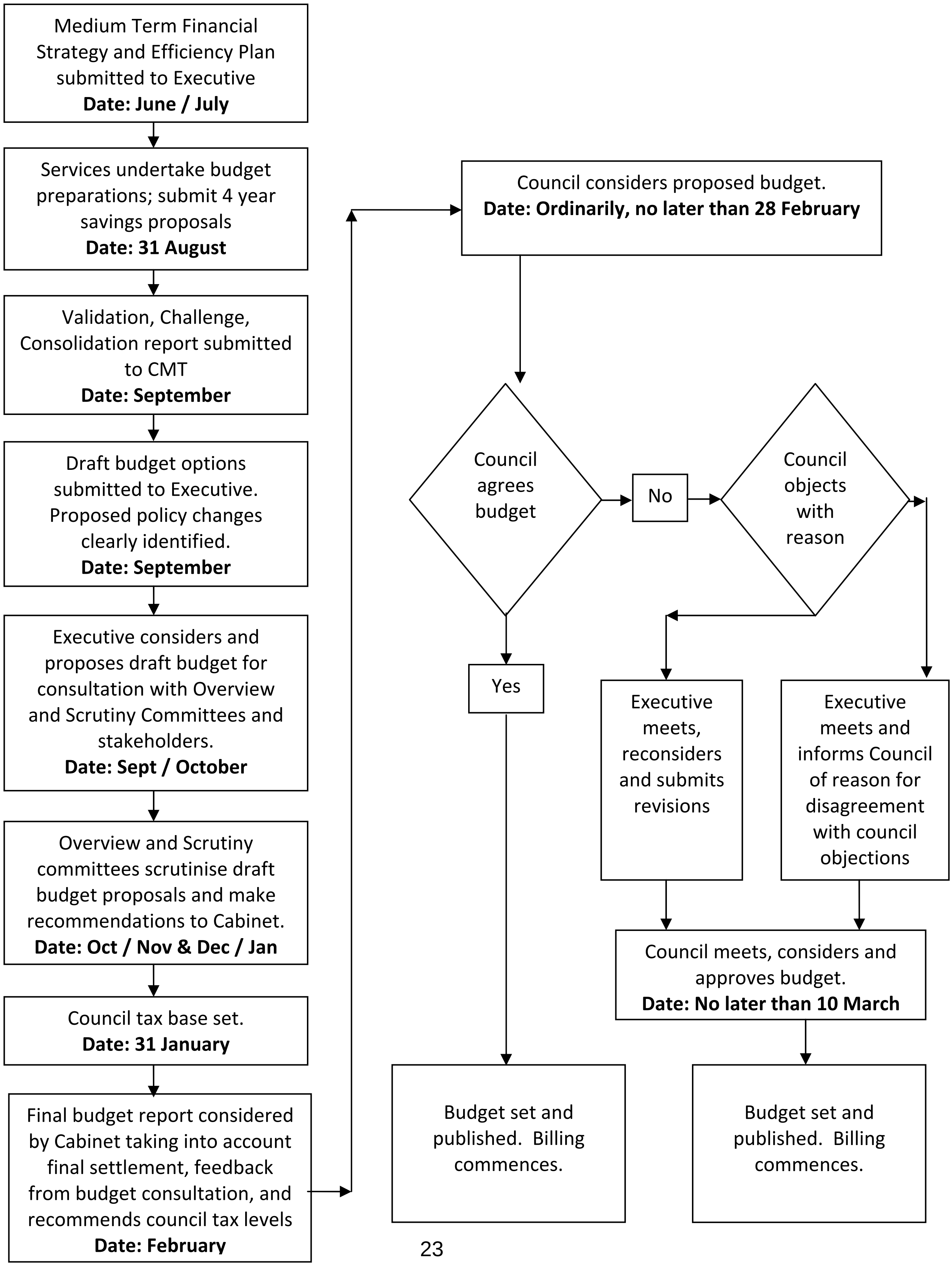
Document	Brief Description	Detailed Drafting	Officer Approval	Member Approval	Date	Review Frequency
Medium Term Financial Strategy (MTFS)	Sets out how the council wishes to structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.	FM / HOF	CFO	Cabinet	Summer	Annual
Capital Strategy	The council's intentions for its capital income and expenditure to deliver the organisation's aims and objectives.	FM / HOF	CFO	Cabinet	Summer	Annual
Treasury Management Strategy and Policy Statements and Annual Report	The council's overarching strategy and operational procedures in the management of its debt portfolio and investments. Annual report on performance.	SFM / HOF	CFO	Cabinet & Council Cabinet Cabinet	Strategy: Feb/Mar Policy Statement – Sept/Oct Annual Report – Summer	Annual
Risk Management Strategy	The council's approach to managing risks to avoid unnecessary cost and reduce liability, whilst still maximising opportunities available.	HOF / IA	CFO	Audit Cttee	Spring	Annual
Budget Framework	Guidance to practitioners on the construction of the annual revenue budget and capital programme.	HOF	CFO	N/A	Summer	Annual
CIPFA guidance	Annual Governance Statement Codes of Practice Prudential Code	CIPFA	Implementation - HOF / CFO / IA	N/A	Various	As required

Document	Brief Description	Detailed Drafting	Officer Approval	Member Approval	Date	Review Frequency
Medium Term Financial Outlook (MTFO)	The revenue budget plan.	FM / HOF	CFO	Cabinet	Summer (with MTFS)	Annual
Budget Management and Control Manual	Detailed guidance for practitioners on the management and control of budgets and allied activities.	FM / HOF	CFO	N/A	Spring	Annual
Annual Governance Statement (AGS)	Statement setting out the council's approach to implementing and reviewing governance procedures, including internal control mechanisms in order to ensure the management of the council is adequate, including the reduction of risk.	HOF	Approval - CEO Implementation – CEO /EDs / CFO / MO / HOF / IA	Leader and Audit Committee	September 2018 with Statement of Accounts (2017/18) July for 2018/19 onwards	Annual
Revenue Budget	The annual budget used for setting the council tax and the allocation of financial resources to the services	FM / HOF	CFO	Cabinet Council	February February/March	Annual
Capital Programme	The annual capital programme	FM / HOF	CFO	Cabinet Council	February February/March	Annual
Asset Management Plan (AMP)	The overall plan setting out the council's approach to managing its asset base and securing value for money in their deployment	Asset Manager	Executive Director – E&E / CMT	Cabinet	Summer/Autumn	Annual
Constitution	The overarching document setting out the council's governance arrangements	HL&DS (MO)	CMT	Cabinet Council	As required	Annual/ as required
Contract Rules (CRs) & Finance Rules (FRs)	Detailed guidance setting out procedures to follow in procuring goods and service, securing value for money and ensure the financial management of the council is adequate and safeguarded	HOLNC/HOF/HOP	MO / CFO	Consultation: Audit Committee Cabinet Approval: Council	As required	Annual/ as required

CEO - Chief Executive Officer CFO - Chief Finance Officer/S151 Officer CMT - Corporate Management Team ED - Executive Director FM - Finance Manager (Financial Planning)	HOF - Head of Finance IA – Internal Audit HL&DC / MO – Head of Legal and Democratic Services (Monitoring Officer)	HOLNS – Head of Law (Non Contentious) HOP – Head of Procurement SFM – Senior Finance Manager

APPENDIX B

Budget Process



APPENDIX C - GLOSSARY OF TERMS

Accountable body	Responsible body for finance and governance purposes, accountable for ensuring financial and governance arrangements are adequate.
Base budget	The amount required for services to continue at their current level, adjusted from the previous year's budget for inflationary pressures, not changes in service levels provided.
Baseline	The starting point for financial planning. The current position taking into account all currently known financial issues.
Benchmarking	The process by which a council service, process and/or cost is compared with that of other councils, organisations, prices and/or functions.
Billing authority	Walsall Council is the billing authority responsible for the collection of the council tax and non-domestic rates, which includes amounts from the local precepting authorities – the West Midlands Fire and Rescue and Police Authorities.
Business rate retention	Funding scheme for local government implemented in 2013/14 to replace the previous Formula Grant funding scheme.
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 programme	The annual plan of capital spending and how it is funded, approved by full council each February/March.
Capital receipts	Money received from the sale of council assets e.g. land.
Capital strategy	The council’s intentions for its capital income and expenditure to deliver the organisation’s aims and objectives.
Carry forward protocol	The process by which annual underspends are carried forward between financial years to either reward good financial management.
Central contingency	A small budget set aside each year to cover unforeseen items of expenditure.
Collection fund	A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of council tax, NNDR and residual community charge accounts.
Corporate Plan	Our current corporate plan covers the period 2018 - 2021 and sets out the main objectives the council will be pursuing to improve services and make Walsall a better place. The plan looks at our priorities now and in the future.
Council tax	The tax levied on domestic properties, which depends on the ‘band’ of value for the property based on estimated property values at 1 April 1991.
Council tax base	The total number of band D equivalent properties upon which the council tax can be levied.
Council tax support localisation	Local scheme of council tax discounts replacing council tax benefits, which was abolished from April 2013.
Earmarking	The process of setting aside a specific sum of money for a specific activity, liability or incident.
Financial standing	The council’s financial health and solvency.

Financial strategy	The policy whereby the council establishes the financial principles upon which it builds its revenue and capital budgets.
Employee Performance Review (EPR)	The process for reviewing the performance of individuals, which translates the priorities from directorate, service and team plans into individual targets. It demonstrates how each person contributes to service priorities and the council's vision.
Governance	The arrangements in place to ensure that the council fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.
Internal control	Mechanisms and systems to ensure that the arrangements for financial management are adequate and public money is safeguarded.
Levies	Charges made upon Walsall council by other organisations which serve several authorities (e.g.: Passenger Transport Authority, Environment Agency)
Licensed deficit	A specific permission (given in advance) for a service to overspend and for that overspend to be temporarily funded from general reserves. Any such overspend would have to be for a particular reason to a predetermined level. Any such permission is given on the basis of an agreement to pay it back in full over a defined period, usually the following financial year.
Medium-term financial outlook (MTFO)	Consideration and forward planning of the council's finances over a period of at least three years.
Medium term financial strategy (MTFS)	The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.
National non-domestic rates (NNDR)	A tax levied on business properties, also referred to as business rates. NNDR poundage is set annually by the Government. A new Business Rates Retention scheme introduced in 2013/14 whereby local authorities retain 50% actually collected, with the remaining passed to government to be reallocated to councils in the form of a top up grant. As part of the West Midlands Combined Authority, we are currently a pilot to 100% retention.
Net council tax requirement	The amount of council spending needed to be financed by council tax, following the receipt of central Government formula grant, other specific grants, use of reserves and external fees and charges.
Options appraisal	The process by which several possible courses of action are assessed against a range of objective criteria to determine the best way forward.
Policy led budgeting	A system of budgeting where resources are linked to council priorities to ensure that projects with the highest priority receive the funding necessary to implement them.
Precepting authority	An authority e.g. police and fire which sets a 'precept' on billing authorities, who collect it on their behalf.
Prudent	The minimum the council has to do to ensure financial health, manage financial risks and deliver services.

Reserves	The total level of funds the authority has accumulated over the years. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves (also known as balances) arise from an accumulation of previous years' surpluses and deficits and are available to support one-off revenue expenditure.
Revenue expenditure	Expenditure on the day-to-day running costs of services e.g. employees, premises, furniture and equipment.
Revenue support grant (RSG)	The main central government grant paid to each authority to finance its general expenditure. This is no longer payable following implementation of 100% business rates retention.
Ring fenced	This refers to the statutory requirement for certain funds to be separately maintained.
Risk management	A systematic and proactive way of evaluating potential risks and identifying practical ways in which those risks can be reduced or eliminated so that the objectives of the council can be achieved without interruption.
Risk register	A comprehensive list of risks to the delivery of services at a project, service, directorate or corporate level.
Service plans	A document setting out what a service plans to do for a specified time period. It gives clear direction about priorities and targets and sets out how they will be delivered and resourced.
Tariffs and Top Ups	Calculated by comparing an individual authority business rates baseline against baseline funding levels.
Treasury management	The proactive management of the council's loans portfolio and cash flow, seeking to minimise interest on borrowing whilst maximising funds for capital expenditure to deliver the council's objectives.
Prudential borrowing	Borrowing where interest and repayment costs are funded from the council's revenue budget.