



Confident Capable Council Scrutiny Panel

5 September 2013

Report Title	Budget Update and Review	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources	
Wards Affected	All	
Accountable Strategic Director	Keith Ireland, Strategic Director Delivery	
Originating service	Delivery	
Accountable officer(s)	Mark Taylor	Assistant Director Finance
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Recommendation(s) for action or decision:

The Panel is recommended to:

1. Consider the arrangements for:
 - Ensuring adequate identification and management of budget risks;
 - Budget planning and forecasting for future years.

1.0 Purpose

- 1.1 To bring to the Panel's attention information about the council's finances that has recently been reported to the Cabinet and Cabinet (Resources) Panel, including:

Reports relating to the 2012/13 Outturn

- The outturn position for 2012/13 against capital budgets;
- The outturn position for 2012/13 against revenue budgets;
- The council's treasury management activities during 2012/13.

Reports relating to Monitoring of the 2013/14 Budgets

- The forecast outturn position for 2013/14 against capital budgets as at quarter one, and the forecasts for 2014/15 to 2017/18;
- The forecast outturn position for 2013/14 against revenue budgets as at quarter one;
- The council's treasury management activities during the first quarter of 2013/14 and the forecasts for the remainder of the year.

Reports relating to the Medium Term Financial Strategy

- The council's forecast General Fund budget and savings requirements for 2014/15 and beyond.

Reports relating to the Council's Housing Revenue Account (HRA) Business Plan

- The council's HRA outturn position for 2012/13 against revenue and capital budgets;
- The council's HRA forecast outturn position for 2013/14 against revenue budgets;
- The council's HRA Business Plan, including the capital programme for 2013/14 – 2017/18.

2.0 Background

- 2.1 As set out in Scrutiny Panel's work plan, the Panel will receive regular updates on the budget and medium term financial strategy throughout the year. This is the second report of this nature for 2013/14.

- 2.2 Reports focussing on the council's finances have been received by Cabinet and Cabinet (Resources) Panel as set out below:

Cabinet (Resources) Panel, 26 June 2013

- Capital Budget Outturn 2012/13 including Quarter One Capital Budget Monitoring 2013/14;
- Housing Revenue Account Business Plan Update Quarter One 2013/14.

Cabinet (Resources) Panel, 23 July 2013

- Quarter One Revenue Budget Monitoring 2013/14.

Cabinet, 24 July 2013

- Annual Treasury Report 2012/13 & Treasury Management Activity Monitoring – Quarter One 2013/14;
- Revenue Budget Outturn 2012/13;
- Reserves, Provisions & Balances 2012/13;
- Draft Budget Strategy 2014/15 and Medium Term Financial Strategy.

***In order to minimise printing costs the Panel Chair has agreed that full versions of the reports will not be circulated again - however it is recommended that Panel members review the reports ahead of the meeting, and are requested to please bring the full versions that were circulated with the relevant Cabinet agenda papers to this meeting.**

3.0 Capital Budget Outturn 2012/13 including Quarter One Capital Budget Monitoring 2013/14

3.1 The council's capital expenditure for 2012/13 totalled £119.5 million. The forecast spend for the current year, and the following four years is as follows:

- 2013/14: £176.7 million.
- 2014/15: £53.6 million.
- 2015/16: £28.0 million.
- 2016/17: £19.1 million.
- 2017/18: £3.1 million.

3.2 There are a number of significant risks associated with the medium-term capital programme. These are discussed in Appendix G of the report. The table below provides a summary of those risks.

Table 1 – Summary of Capital Programme Risks

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of ineffective budget management.	Amber
Income and Funding	Risks that might materialise as a result of a reduction in external funding, a failure to deliver the disposal programmes and claw back of grants funding.	Amber
Service Demands	Risks that might materialise as a result of demands for services leading to a requirement for capital investment.	Amber
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy.	Amber

4.0 Housing Revenue Account Business Plan Update Quarter One 2013/14

4.1 The revenue outturn position for 2012/13 for the Housing Revenue Account was a surplus (before allocations to reserves and redemption of debt) of £8.8 million, compared

to a budgeted surplus of £5.5 million, whilst the total capital expenditure for the year was £41.4 million.

- 4.2 The forecast outturn against the 2013/14 revenue budget is a surplus before allocations of £11.0 million compared to a budgeted surplus of £11.4 million.
- 4.3 The Housing Revenue Account continues to be forecast to have sufficient resources to fund the £1.7 billion of capital works that will be required to its houses over the next 30 years, as well as meeting its management and maintenance obligations over the same period.
- 4.4 There are a number of risks associated with the Housing Revenue Account Business Plan Update. These are discussed in Appendix C of the report. The table below provides a summary of those risks.

Table 2 – Summary of Housing Revenue Account Business Plan Risks

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of ineffective budget management, the impact of non-pay inflation and pay awards, staff vacancy factors, the HRA borrowing cap, assumptions regarding the 30 year asset management plan, loss of ICT facilities and Treasury Management Activity.	Amber
Income and Funding	Risks that might materialise as a result of a reduction in income, higher than anticipated bad debts and lower than anticipate levels of capital funding.	Amber
Service Demands	Risks that might materialise as a result of increased demand for services.	Green
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy.	Amber

5.0 Quarter One Revenue Budget Monitoring 2013/14

- 5.1 The council's forecast outturn against revenue budgets for the year is net over spend of £5.0 million against the General Fund net budget requirement of £255.6 million.
- 5.2 Options to deliver additional one-off savings during 2013/14 need to be considered to address the projected over spend and reduce the call on the General Fund balance.
- 5.3 There are a number of significant risks associated with the revenue budget. These are discussed in Appendix G of the report. The table below provides a summary of those risks.

Table 3 – Summary of Revenue Budget Monitoring 2013/14 Risks

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of ineffective budget management, the impact of non-pay inflation and pay awards, staff vacancy factors, VAT rules, loss of ICTS facilities, treasury management activity and the impact of single status.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget, insufficient sum set aside for the implementation of replacement mainframe system and the budget not being sufficient to procure and implement new IT mainframe systems.	Red
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, clawback, reduction to government grant or increased levels of bad debts.	Amber
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Red
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules.	Amber

6.0 Annual Treasury Report 2012/13 & Treasury Management Activity Monitoring – Quarter One 2013/14

- 6.1 This report confirms that the council is continuing to operate within the Prudential and Other Indicators approved by the council, and also within the requirements set out in the council's approved Treasury Management Policy Statement.
- 6.2 Treasury management activities generated revenue savings of £3.3 million for the General Fund and £2.6 million for the Housing Revenue Account in 2012/13, whilst revenue savings of £592,000 for the General Fund and £2.7 million for the Housing Revenue Account are forecast from treasury management activities in 2013/14.

7.0 Revenue Budget Outturn 2012/13

7.1 The revenue outturn position for 2012/13 for the General Fund is a net over spend of £3.6 million.

7.2 Schools' balances reduced by £3.7 million during 2012/13.

8.0 Reserves, Provisions and Balances 2012/13

8.1 This report details the council's specific reserves, provisions and general balances as at 31 March 2013, and the movements during the year. Specific reserves decreased by £18.9 million to £44.1 million, while general balances decreased by £13.1 million to £38.0 million and provisions decreased by £3.4 million to £44.0 million.

8.2 Confident, Capable Council Scrutiny Panel will once again be undertaking a review of all reserves during 2013/14.

9.0 Draft Budget Strategy 2014/15 and Medium Term Financial Strategy

9.1 A number of budget and medium term financial strategy reports will be received by Cabinet (and this sub-committee) as the process of setting the 2014/15 budget progresses over the coming months, of which this report was the first.

9.2 This report provided an update to the Medium Term Financial Strategy approved on 26 February, incorporating changes to growth, funding assumptions, arising from the Spending Review announcement, and any other assumptions.

9.3 In summary, the financial outlook remains extremely challenging with the council required to find savings with a cumulative value of £86.0 million by 2018/19, with an initial focus on delivering £18.3 million by 2014/15. It is important to note that the projected budget deficit already assumes the successful delivery of savings amounting to £16.5 million over the five year period, many of which will be particularly challenging. The extent of this financial challenge extends way beyond anything that Wolverhampton has ever had to contend with in the past and the impact that the response to the challenge will have on services, employees and partners will undoubtedly be extremely significant.

9.4 Work is currently underway to develop savings and cuts proposals to address the council's forecast budget deficit over the medium term. These will be reported to Cabinet, and this committee, as the budget process continues to progress.

9.5 There are a number of significant budget risks included in the report. Overall the risk associated with the 2014/15 budget is assessed as Red. The budget risks are discussed in Appendix D of the report. The table below provides a summary of those risks.

Table 4 – Summary of Budget Risks 2014/15

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of ineffective budget management, the impact of non-pay inflation and pay awards, staff vacancy factors, VAT rules, loss of ICTS facilities, treasury management activity and the impact of single status.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget, insufficient sum set aside for the implementation of replacement mainframe system and the budget not being sufficient to procure and implement new IT mainframe systems.	Red
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, clawback, reduction to government grant or increased levels of bad debts.	Red
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Amber
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules.	Red

10.0 Financial implications

10.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.
[MH/23082013/M]

11.0 Legal implications

11.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.
[FD/23082013/L]

12.0 Equalities implications

12.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.

13.0 Environmental implications

13.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.