



Confidant Capable Council Scrutiny Panel

23 January 2013

Report title	Budget Update and Review	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Wards affected	All	
Accountable director	Keith Ireland, Delivery	
Originating service	Delivery	
Accountable employee(s)	Mark Taylor Tel Email	Assistant Director Finance 01902 55(6609) Mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

The Panel is recommended to:

1. Consider the arrangements for:
 - a. Ensuring adequate identification and management of budget risks;
 - b. Budget planning and forecasting for future years.
2. Provide feedback to Cabinet on the updated draft five year budget and medium term financial strategy 2014/15 to 2018/19.

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 to Cabinet (Resources) Panel 26 November 2013 relating to Monitoring of the 2013/14 Budgets

The forecast outturn position for 2013/14 against capital budgets as at quarter two, and the forecasts for 2014/15 to 2017/18;

The Council's treasury management activities during the second quarter of 2013/14 and the forecasts for the remainder of the year.

Reports to Cabinet (Resources) Panel 17 December 2013 relating to Monitoring of the 2013/14 Budgets

The forecast outturn position for 2013/14 against revenue budgets as at quarter two.

Reports to Cabinet (Resources) Panel 26 November 2013 relating to the Council's Housing Revenue Account (HRA) Business Plan

HRA Business Plan update Quarter Two 2013/14.

- 1.2 To bring to the Panel's attention, and request feedback on, the update to the draft five year budget and medium term financial strategy 2014/15 to 2018/19 that was reported to the Cabinet on 8 January 2014

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 third report of this nature for 2013/14.
- 2.2 As stated in the last report to Panel on the draft budget and medium term financial strategy 2014/15 to 2018/19 the Panel is to consider the response of Cabinet to the comments made by Scrutiny Board during the November/December round of meetings, together with any new savings proposals that may emerge.

***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 Draft five year budget and medium term financial strategy 2014/15 to 2018/19

- 3.1 An update to the draft five year budget and medium term financial strategy 2014/15 to 2018/19 was reported to Cabinet on 8 January 2014. This update was prepared following receipt of the provisional settlement figures for 2014/15, illustrative settlement figures for 2015/16 and additional information from government. The settlement figures revealed a further substantial cut in projected government funding.
- 3.2 The report identified that the budget deficit over five years (before proposed savings of £64.4 million) had increased to £123.0 million. It was noted that significant uncertainty over future funding still exists and the projected deficit over the medium term could change significantly.
- 3.3 As a result of the increased deficit Cabinet approved the adoption of an adapted revised strategy requiring services to be cut deeper and faster, namely:
- a. Cease expenditure during the remainder of 2013/14 on all but absolutely essential items, in order to limit the call on general balances
 - b. Subject to the outcome of budget consultation accelerate the implementation of some of the existing 165 savings proposals to bring forward a minimum of £4 million into 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report
 - c. Identify a minimum of £5 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2014/15, in time to be incorporated into the February 2014 Cabinet Budget report, subject to consultation as necessary
 - d. Identify a further minimum of £10 million of new savings proposals, or increases in the value of the existing 165 proposals, for 2015/16, in time to be incorporated into the July 2014 Cabinet Budget report
 - e. That a report be presented to Cabinet to change the terms of the Council's redundancy policy to statutory minimum. It should be noted that it cannot be guaranteed that the Council will be able to allow employees to access a full pension between the ages of 55 and 60 after 31 March 2014.
 - f. Review the capital programme and Treasury Management Strategy to identify further savings
- 3.4 The results of the budget consultation and of budget scrutiny have not yet been considered by Cabinet. Reports are being prepared and the response of Cabinet will be reported back to this Panel
- 3.5 The following table provides a summary of the six main areas of risks associated with the Medium Term Financial Strategy, using the corporate risk management methodology.

Risk	Description	Level of Risk
Financial and Budget Management	Risks that might materialise as a result of 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 and budget management failure.	Amber
Transformation Programme	Risks that might materialise as a result of not identifying savings, not delivering the savings incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering savings and downsizing the workforce.	Red
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, claw back, 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

3.6 The overall risk associated with the Medium Term Financial Strategy for the 5 year period 2014/15 to 2018/19 budget is currently assessed as Red.

4.0 Capital Budget Monitoring 2013/14 as at Quarter Two

4.1 Cabinet (Resources) Panel approved the revised medium term General Fund (excluding housing) capital programme of £290.8 million for the period 2013/14 to 2017/18. Including General Fund private sector housing, the total General Fund capital programme is £310.5 million.

4.2 Variations approved to the capital programme totalled £30.0 million with the detail being shown in Appendices A-G of the report

4.3 Appendix M to the report provides an analysis of the risks associated with the capital programme, along with details of the risk control measures that are in place in order to

manage and mitigate these risks as far as possible. The overall risk associated with the Programme continues to be quantified as Amber.

5.0 Treasury Management Activity Monitoring as at Quarter Two

- 5.1 Overall 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.
- 5.2 Revenue savings of £870,000 for the General Fund and £2.8 million for the Housing Revenue Account are forecast from treasury management activities in 2013/14.
- 5.3 A mid-year review of the Treasury Management Strategy Statement has been undertaken and the Council has operated within the limits and requirements approved by Council in March and September 2013.

6.0 Revenue Budget Monitoring 2013/14

- 6.1 Overall a net over spend of £6.8 million (2.65%) is projected against the General Fund net budget requirement of £255.7 million. This represents an increase of £1.8 million against the Quarter 1 forecast of £5.0 million, primarily due to a continued increase in the number of Looked after Children placements in addition to an increase in physical and learning disabilities care management and assessment expenditure.
- 6.2 Options to deliver additional one-off savings during 2013/14 need to be considered urgently to address the projected over spend and reduce the call on the General Fund balance. Strategic Directors and Assistant Directors are working to identify urgent action that can be used to deliver savings to address this projected overspend.
- 6.3 A summary of the risks associated with the General Fund 2013/14 budget are shown in Table 15 to the report. Overall the level of risk remains at Red.
- 6.4 The Council is planning its budget amidst a high degree of uncertainty, which brings with it risks. As well as specific mitigating actions on individual issues, risks have been addressed in a number of different ways:
 - The Assistant Director Finance will work closely with, and where necessary challenge, the Chief Executive, Strategic Directors, Assistant Directors, Heads of Finance and leading Councillors throughout the budget process in order that such risks are identified, understood and effectively managed;
 - The planning of the budget and service plans are designed to ensure that account can be taken of the need for proper planning of change and of the financial impact in later years of decisions taken now;
 - The process of planning the budget will afford the opportunity for services to identify emerging budget pressures, including those related to legislative requirements and demographic changes. Where necessary these will result in new investment, and

- Account will be taken, in planning the budget for future years, of any issues which emerge as part of the process of monitoring the budget during 2013/14.

7.0 HRA Business Plan Update Quarter Two 2013/14

- 7.1 The forecast revenue outturn for 2013/14 was a surplus before allocations of £10.5 million, compared to a budgeted surplus of £11.4 million.
- 7.2 In performing the quarter two update of assumptions and estimates within the HRA business plan, a forecast shortfall in the 30-year business plan of £248.7 million was identified. This was due to three primary factors:
- The Government announcement of the end of rent convergence;
 - An increase in the projected right to buy sales following the Government increasing the level of discounts available to tenants;
 - An increase in the projected capital expenditure requirement.
- 7.3 Actions to address the shortfall were approved by Cabinet (Resources) Panel as follows:
- Subject to consultation with tenants, to implement above-inflationary rent increases, noting that this would mean a rent increase of c.6.25% in April 2014, and 3.5-4% in subsequent years
 - to put in place an indicative freeze in managing agents' allowances for the next five years;
 - to review capital expenditure plans, and to resist any further increases in capital expenditure except where that expenditure results in a net contribution to the plan and is affordable in the short-term (for example, new-build housing projects).
- 7.4 Appendix C to the report provides a detailed analysis of the risks associated with the HRA Budget and Capital Programme, along with details of the risk control measures that are in place in order to manage and mitigate the risks as far as possible. The overall risk associated with the budget continues to be quantified as Amber.

8.0 Financial implications

- 8.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.
[NA/15012014/H]

9.0 Legal implications

- 9.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.
[AS/15012014/I]

10.0 Equalities implications

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

11.0 Environmental implications

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

12.0 Human resources implications

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

13.0 Schedule of background papers

Reports to Cabinet (Resources) Panel 26 November 2013 relating to Monitoring of the 2013/14 Budgets

The forecast outturn position for 2013/14 against capital budgets as at quarter two, and the forecasts for 2014/15 to 2017/18;

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HRA Business Plan update Quarter Two 2013/14.

Report to Cabinet 8 January 2014 relating to the draft budget and medium term financial strategy

5 Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19