



Confident Capable Council Scrutiny Panel

22 April 2015

Report title	Budget Update and Review	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Wards affected	All	
Accountable director	Mark Taylor, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye Tel Email	Chief Accountant 01902 55(0478) claire.nye@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. Note that infographics will be used to enhance the updated Financial Plan.

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 Council's Budget and Medium Term Financial Strategy

- 2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19 – 4 February 2015
- Treasury Management Strategy 2015/16
- Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19 – 25 February 2015
- Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy

Reports relating to Monitoring of the Council's 2014/15 Budgets

- Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy
- Quarter Three Treasury Management Activity Monitoring
- Revenue Budget Monitoring 2014/15

2.0 Background

- 2.1 As set out in the Confident Capable Council Scrutiny Panel work plan, regular updates on the budget and medium term financial strategy will be received throughout the year. This is the first report of this nature during 2015/16.
- 2.2 Six reports focussing on the Council's finances have been recently received by Cabinet and Cabinet (Resources) Panel, as set out chronologically below:

Cabinet, 4 February 2015

- 2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19

Cabinet (Resources) Panel, 10 February 2015

- Quarter Three Treasury Management Activity Monitoring

Cabinet, 25 February 2015

- Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy
- Treasury Management Strategy 2015/16
- Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19

Cabinet (Resources) Panel, 24 March 2015

- Revenue Budget Monitoring 2014/15

In order to minimise printing costs, the Panel Chair has agreed that full versions of the reports will not be circulated again. It is recommended, however, 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 and Cabinet (Resources) Panel agenda papers to this meeting. Summaries of the relevant reports are shown below.

3.0 2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19

- 3.1 The purpose of this report, which was presented to Cabinet on 4 February 2015, was to provide an update on the 2015/16 Budget and the Medium Term Financial Strategy for the period 2015/16 to 2018/19. This was the third report to Cabinet on the 2015/16 Budget and the Medium Term Financial Strategy for the period 2015/16 to 2018/19.
- 3.2 The Budget and Medium Term Financial Strategy for the period 2014/15 to 2018/19 was approved by Council on 5 March 2014, with a budget deficit of £11.8 million projected for 2014/15 rising to £59.2 million by 2018/19.
- 3.3 A budget strategy to address the projected budget deficit was approved by Council at that meeting, and throughout the first seven months of 2014/15 significant work took place to identify new savings proposals to achieve the strategy for 2015/16.
- 3.4 Extensive budget preparation work has been on-going in recent months for the 2015/16 budget. This detailed work, in conjunction with adjustments arising as a result of changes in assumptions was incorporated into this update to the Budget and Medium Term Financial Strategy.
- 3.5 The report stated that the Council faced finding further savings totalling £40.6 million over the next four years, with an immediate focus on identifying as much of the projected £3.5 million deficit for 2015/16 as possible. The budget position reported to Cabinet in October identified that savings totalling £36.7 million were required over the medium term period to 2018/19; the budget adjustments increased the budget deficit by £3.9 million over the medium term, largely due to additional Treasury Management budget of £3 million required as a result of increasing interest costs as well as pressures arising from a reduction in projected Birmingham Airport dividends and compliance with Deprivation of Liberty Safeguarding.

- 3.6 If the Council were to use £3.5 million of general reserves to balance the budget in 2015/16, this would breach the Council's policy of maintaining a minimum of £10 million in general reserves.
- 3.7 In order to address this issue, the report stated that further detailed technical work would continue prior to the next update to Cabinet on 25 February 2015, with the aim of identifying additional savings to reduce the projected budget deficit in 2015/16 and therefore reduce the call on general reserves.

4.0 Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy

- 4.1 The purpose of this report was to provide Cabinet with an update on the financial performance of the General Fund capital programme as at quarter three of 2014/15, the budget strategy for 2015/16, and to recommend a revised General Fund capital programme for the period 2014/15 to 2019/20.
- 4.2 The report recommended variations to the approved programme totalling an increase of £1.5 million, bringing the total revised capital programme to £221.2 million. The projected increase of £1.5 million reflects additional expenditure of £377,000 not already assumed in the approved capital programme requiring Council approval, and the inclusion of projected Private Sector Housing budgets for the 2019/20 financial year of £1.1 million.
- 4.3 The approved General Fund capital budget for the financial year 2014/15 amounts to £122.7 million and expenditure to the end of quarter three 2014/15 totalled £52.8 million, representing 43.0% of the approved budget.

5.0 Treasury Management Strategy 2015/16

- 5.1 This report set out the Council's Treasury Management Strategy for 2015/16 for approval by Full Council. The strategy incorporates six elements, which are detailed in six separate documents, appended to the original report. The content of these documents is summarised below at 5.2 to 5.7.
- 5.2 Treasury Management Strategy - This has been prepared in accordance with the CIPFA Treasury Management Code, and fully reflects the requirements of the Code. It summarises in strategic terms the approach the Council will take in performing its treasury management activities during 2015/16. It also highlights some of the key current risks and issues relating to treasury management that will be monitored over the course of the year.
- 5.3 Annual Investment Strategy - This builds on the Treasury Management Strategy by focussing in greater detail on investment activities. It sets out in detail the conditions under which the Council will place investments. This represents the Council's approach to managing a number of risks inherently associated with investment. These are discussed in greater detail in the Strategy itself.

- 5.4 Prudential and Treasury Management Indicators - The Prudential Code requires authorities to set and observe a range of prudential and treasury management indicators, and to keep these under review. The indicators set out in the appendix to the Treasury Management Strategy report are the minimum required by the Code and associated guidance.
- 5.5 Minimum Revenue Provision (MRP) Statement - The Council adopted the equal instalment method of calculating MRP from 1 April 2008, but revised its approach to calculating MRP on an annuity basis from 1 April 2014 with the agreement of its auditors. It was considered that this revision was both more prudent and fairer than the previous method.
- 5.6 Disclosure for Certainty Rate - This rate enables eligible councils to access cheaper borrowing rates of 20 basis points below the standard rate across all loan types and maturities from the Public Works Loan Board.
- 5.7 Treasury Management Policy Statement and Practices – The updated version of the Council’s treasury management policy statement and practices, as required by the CIPFA Code of Practice on Treasury Management, was attached to the report for Cabinet to recommend approval by Council.
- 6.0 Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19**
- 6.1 This was the fourth and final report to Cabinet (25 February 2015) on the 2015/16 Budget and the Medium Term Financial Strategy for the period 2015/16 to 2018/19. The report provided Cabinet with a budget for recommendation to Full Council.
- 6.2 At its meeting on 4 February 2015, Cabinet were provided with an update on the 2015/16 Budget and Medium Term Financial Strategy for the period 2015/16 to 2018/19. At that point in time, the Council needed to identify £3.5 million of savings to balance the 2015/16 budget, rising to £40.6 million by 2018/19. At that meeting, Cabinet were informed that further detailed work would continue prior to this meeting, with the aim of reducing the call on general reserves as much as possible to ensure that the Council’s policy of maintaining a minimum of £10 million in general reserves is not breached.
- 6.3 This fourth report updated the 2015/16 Budget and Medium Term Financial Strategy for the period 2015/16 to 2018/19 for changes arising from the further detailed work undertaken. This work, including revision of the MRP Policy, has resulted in the Council being able to propose a budget for 2015/16 which is balanced without calling upon general reserves.
- 6.4 Recasting the projected budget challenge resulted in the gap increasing from £123 million to £134 million over the period 2014/15 to 2018/19. The increase is largely due to the rising costs of Looked After Children, pay and pension costs, and continuing Government grant cuts. However, against this, savings totalling £87.8 million have been identified during the 2014/15 and 2015/16 budget setting processes.

- 6.5 The Council is now faced with finding further savings totalling £46.3 million over the next four years. The budget position reported to Cabinet on 4 February 2015 identified that savings totalling £40.6 million were required over the medium term period to 2018/19; the budget adjustments therefore have resulted in an additional pressure of £5.7 million over the medium term.
- 6.6 The report identified that work must start immediately to identify £20 million of additional savings to address the projected £14.8 million budget deficit for 2016/17. A savings target in excess of the projected budget deficit for 2016/17 is necessary due to the increased uncertainty of future government funding. This would give the Council choice over the implementation of those savings in the event that grant funding is in line with current projections. It was proposed that an update on progress will be reported to Cabinet in June 2015.
- 6.7 Further to this, additional savings totalling £26 million need to be identified, taking the total additional savings to be identified to £46 million, in order to address the projected budget deficit over the medium term to 2018/19.
- 6.8 It is important to note that the updated projected budget deficit assumes the achievement of prior year savings proposals amounting to £46 million over the four year period to 2018/19. Having identified significant savings over the last five financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the council has ever faced.

7.0 Quarter Three Treasury Management Activity Monitoring

- 7.1 This report provided a monitoring and progress report on treasury management activity for the third quarter of 2014/15, in line with the Prudential Indicators approved by Council in March 2014 and December 2014.
- 7.2 Savings of £4.5 million for the General Fund and £6.0 million for the Housing Revenue Account were forecast in the report, from treasury management activities in 2014/15.
- 7.3 The average rate of interest payable by the Council is estimated to fall from 3.97% to 3.70% for 2014/15 in the report.

8.0 Revenue Budget Monitoring 2014/15

- 8.1 The purpose of this report was to provide Cabinet (Resources) Panel with a projection of the likely revenue outturn position, compared with the Council's approved revenue budgets for 2014/15.
- 8.2 A net underspend of £9.2 million (-3.72%) was projected against the General Fund net budget requirement of £247.6 million. This combined with the receipt of an additional Business Rates support grant totalling £2.7 million in 2014/15 will result in a forecast contribution of £1.9 million to general balances during the year, rather than drawing down almost £9.9 million of general fund reserves to balance the budget in 2014/15 as originally approved.
- 8.3 The Council continues to be faced with a challenging projected financial position over the medium term, and significant savings are required in order to achieve a robust financial position.

The Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19 approved by Full Council on 4 March 2015 identified that the Council is now faced with finding further savings totalling £46.3 million over the next four years. It is important to note that the updated projected budget deficit assumes the achievement of prior year savings proposals amounting to £46.0 million over the four year period to 2018/19.

8.4 During the first seven months of 2014/15, significant work was undertaken to identify new savings proposals to achieve the approved budget strategy for 2015/16 and identifying £25 million of savings, with the aim of accelerating as many of those savings as possible into 2014/15, to reduce the call on general balances. The budget shown in the report reflects the acceleration of existing and additional 2014/15 savings proposals equating to £1.9 million, approved by Cabinet on 22 October 2014. These savings will reduce the call on general fund reserves this financial year.

8.5 In order to support the savings programme in rebuilding general reserves, Cabinet approved in October that expenditure during the remainder of 2014/15 be restricted where possible to generate savings during the year to offset projected overspends in some areas.

8.6 An update on the General Fund budget risks was provided in the report. Overall the risk for 2014/15 was assessed as amber.

8.7 Projected redundancy costs of £6.0 million were included in the forecast outturn, and will be funded by a contribution from the Efficiency Reserve. The projected costs are subject to change, dependent upon the actual redundancies approved by the year end.

9.0 Use of Infographics

9.1 At the meeting of the Confident, Capable, Council Scrutiny Panel on 4 February 2015, it was agreed that the use of infographics would be used to enhance financial reporting. Work has been undertaken to identify appropriate opportunities to use infographics to enhance budget reporting. The Financial Plan, which was first published in December 2013, is prepared for the citizens and businesses of Wolverhampton and outlines the medium term financial challenges and plans. This document will be updated shortly and it is proposed that the next update of the Financial Plan is enhanced with the use of infographics.

10.0 Financial Implications

10.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel [RT/23032015/K].

11.0 Legal Implications

11.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel [TS/07042015/V].

12.0 Equalities Implications

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

13.0 Environmental Implications

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

14.0 Schedule of Background Papers

2015/16 Budget and Medium Term Financial Strategy 2015/16 to 2018/19, Cabinet 4 February 2015.

Capital Programme 2014/15 to 2018/19 Quarter Three Review and 2015/16 to 2019/20 Budget Strategy, Cabinet 25 February 2015.

Treasury Management Strategy 2015/16, Cabinet 25 February 2015.

Budget 2015/16 and Medium Term Financial Strategy 2015/16 to 2018/19, Cabinet 25 February 2015.

Quarter Three Treasury Management Activity Monitoring, Cabinet (Resources) Panel 10 February 2015.

Revenue Budget Monitoring 2014/15, Cabinet (Resources) Panel, 24 March 2015.