

For publication

Budget Monitoring for 2016/17 & Updated Medium Term Financial Forecast

Meeting:	Council Cabinet
Date:	14 th December 2016 15 th November 2016
Report by:	Acting Chief Finance Officer

For publication

1.0 **Purpose of report**

1.1 To provide the Council with an update on the budget position at the end of the second quarter, covering:

- General Fund Revenue
- General Fund Capital
- Housing Revenue Account
- Housing Capital Programme

1.1 To meet the requirement in the Financial Procedure Rules to provide the Council with regular updates on the Council's financial position.

2.0 **Recommendations**

2.1 To note the financial performance in the first half of the financial year and the new medium term forecast (Sections 4 and 7).

2.2 To note the Efficiency Plan submitted to DCLG (para 3.2).

- 2.3 That the proposed use of reserves as set out in Section 6 of the report be reviewed and confirmed.
- 2.4 To note the changes to the HRA budgets (Section 8).
- 2.5 That the budget preparation guidelines in para. 9.1 be approved.
- 2.6 That the approach to budget consultation be considered (para. 9.3).

3.0 **Background**

- 3.1 The Council approved the original budget for 2016/17 on 25th February 2016. The Band 'D' Council Tax was set at £149.89. After allowing for planned savings of £1,029k, there was a forecast net budget deficit of £236k. Importantly, this position was only achieved after assuming that all the New Homes Bonus allocation (£902k) and the whole of the estimated gain from Business Rates Pooling (£412k) are used to support the budget.
- 3.2 All of the indications are that the medium term outlook will continue to be challenging. The publication of indicative grant figures for three further years in the 2016/17 settlement has helped to make future forecasts more robust. However, to obtain certainty and stability, the Council applied to take up the offer from the Department for Communities and Local Government of a four year funding settlement and provided them with an Efficiency Plan on 14th October 2016. A copy of the Efficiency Plan is included in Appendix A.
- 3.3 Any announcement for 2017/18 and future years will follow the release of the 2016 Spending Review on 23rd November 2016. The Medium Term forecast approved by the Full Council on 25th February 2016 showed deficits, before the savings targets are taken into account, of £1.3m in 2016/17 rising to £2.7m by 2020/21.

4.0 **Current Year's Budget**

- 4.1 We started the year with a forecast deficit of £236k after allowing for £1,029k of savings. At the end of the second quarter adjustments to the savings target and other variances have

produced a revised deficit forecast of **£326k**. A summary of the key variances is provided in the table below:

2016/17 UPDATED BUDGET DEFICIT FORECAST – TO QUARTER 2		
Deficit Forecast at the start of the year		236
<u>Budget Saving - increased income:</u>		
Queens Park Sports Centres	(206)	
Industrial/Commercial/Retail rental income	(209)	
Renewal of leases	(126)	(541)
<u>Budget Saving - reduced expenditure:</u>		
Energy budgets	(70)	
Vacancy savings above profiled allowance	(130)	
Grants to Voluntary Organisations	(27)	(227)
<u>Budget Increase - reduced income:</u>		
Commission from collection of fees	30	
Community Infrastructure Levy	25	
Car Parking	140	
Market Rents	48	243
<u>Budget Increase - increased expenditure:</u>		
Housing benefits	261	
Old QPSC	85	
Pension costs	23	369
<u>Adjustments to savings Targets:</u>		
Reversal of original budget	1,029	
Budget challenge	(173)	
Action Plan – Savings achieved	(507)	
Cease & Reduce	(116)	233
Net of all other variances		13
Updated Deficit Forecast		326

4.2 The updated deficit forecast must be reduced in the remaining months of the financial year to avoid or minimise any call on

reserves to make up any residual shortfall. Failure to deliver the required savings in the current financial year will put even greater pressure on future years when the savings targets are already challenging and far greater than those for 2016/17. The actions being taken to reduce the forecast deficit include a voluntary redundancy initiative and strict vacancy control measures. Further work on identifying savings is ongoing.

- 4.3 The first draft budget report for 2017/18, including revised estimates for 2016/17, will be presented to the Cabinet in December. The draft budget report will provide a more up-to-date and comprehensive budget forecast.

5.0 **General Fund Capital Programme**

- 5.1 Capital Receipts - To date, capital receipts of £166k have been received. The original forecast for the year was £1.8m but was revised down in the recent budget monitoring report to just £1,029k. This does not include the repayment of the loan by Chesterfield Football Club. The £1,029k has now been revised to £2.6m to reflect repayment of the football club loan and rephrasing of capital receipts for the former fire station and 87 New Square.

- 5.2 General Fund Capital Spend –the original capital budget for 2016/17 was £2.3m. The revised forecast is £6.2m, the £3.9m increase is due to:

- Inclusion of the Waterside infrastructure scheme, the cost of which will be recovered from the landowner - £2.4m;
- An increased allocation for Disabled Facilities Grants from the Better Care Fund - £0.3m;
- Re-profiling of expenditure on the old Queen's Park Sports Centre plus additional spend to deal with unforeseen costs £0.2m;
- Town Hall Alterations moving into 2016/17 plus additional costs for asbestos removal, £0.4m;
- Inclusion of new schemes for Northern Gateway £0.1m, refurbishment of the Winding Wheel lifts £0.1m, Museum Store £0.2m and the Market Hall café £0.1m

- 5.3 Net Capital Financing – The original budget assumed a break even position. The revised capital programme was approved by

Council on 14th October 2016. A break even position was achieved by approving additional prudential borrowing of £383k and deferring repayment on prudential borrowing of £994k by one year. An updated capital programme will be reported to members in February 2017.

6.0 Reserves

6.1 In addition to the General Working Balance, which is maintained at £1.5m, the Council operates a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements. There are three major reserves where the Council has wider discretion on how they are used – the Budget Risk Reserve, the Invest to Save Reserve and the Service Improvement Reserve.

6.2 **Budget Risk Reserve** – the Council maintains this reserve as a supplement to the Working Balance. It is also used to finance the severance costs arising from voluntary staffing reductions and the outcomes of service restructuring exercises. The table below shows the opening balance in the reserve at the start of the financial year and the currently approved or anticipated movements on the reserve. There will be other commitments to include as decisions on new VR/VER applications are determined. There are two new applications of the fund to note:

1. Severance costs arising from the VR/VER initiative at the start of the year were £405k.
2. A carry forward request of £16k for Local Plan preparation costs was approved by Cabinet in June 2016.

Table – Budget Risk Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	1,043	
<u>Less Approved Commitments:</u>		
Land Charges claims	(16)	
Erin Road Pumping Station	(7)	
Private sector stock survey	(26)	
15/16 carry forward – Local Plan	(16)	Cab 14/6/16

Contribution to group litigation claim for damages re incorrect VAT treatment	(7)	
Dilapidation costs Whitting Valley Road	(17)	
PSN compliance and ICT Project Days	(79)	
VR/VER severance costs	(405)	
Health & Safety Prosecution	(25)	
IDOX – reimbursement (Year 1)	30	
Uncommitted Balance	475	

- 6.3 **Invest to Save Reserve** – The table below shows the opening balance in the reserve at the start of the financial year and the currently approved or anticipated movements on the reserve. The reserve is therefore almost fully committed so any future bids will have to be funded from one of the other usable reserves.

Table - Invest-to Save Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	274	
<u>Less Approved Commitments:</u>		
Customer Service Strategy - capital	(105)	
Local Collective Agreement	(10)	
Car park improvements	(111)	
Budget Savings Delivery	(40)	
Treasury management – Property Funds	(7)	
Uncommitted Balance c/fwd	1	

- 6.4 **Service Improvement Reserve** – The table below shows the opening balance in the reserve at the start of the financial year and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	989	
<u>Less Approved Commitments:</u>		
Linacre Master Planning	(39)	

Project Academy (balance)	(13)	
Car parking improvements	(15)	
Innov Centres – telephony system	(204)	
Innov Centres – telephony system - repayments	34	
Northern Gateway	(100)	
Budget Savings Delivery	(110)	
Contribution towards GPGS costs	(5)	
Market Hall café refurbishment	(72)	Cabinet 20/9/16
HLC – reconfigure admin space	(46)	Cabinet 14/6/16
Town Hall restack	(138)	Cabinet 15/11/16
Uncommitted Balance	280	

6.5 The uncommitted balances in these three major reserves have now reduced to £0.76m, from £2.3m at the start of the year. There will be significant demands on these reserves to fund budget deficits, investment in transformation projects and to pay for severance costs from staffing restructures. The Cabinet should, therefore, continually review the commitments against these finite financial resources to ensure that they are used in the most effective way.

7.0 Medium Term Outlook

7.1 The latest medium term forecast indicates significant deficits in all years. In 2016/17 the deficit has increased by £90k but savings required to achieve the original deficit target have been met in part. The table below compares the latest forecast with the original budget forecast (before savings targets) approved in February:

	Budget Deficit Forecasts			
	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Latest Forecast	326	594	680	1,310
Feb 2016 Deficit/(Surplus)	236	(28)	(23)	631
Amount of savings	1,029	2,026	2,236	2,236

required to achieve Feb 2016 Deficit/(Surplus)				
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8.0 Housing Revenue Account (HRA)

8.1 **Housing Revenue** - At the half year all major income sources, including housing rents, were on target. Expenditure was also in line with the profiled budget, except for Housing Repairs Responsive works which showed an overspend of £336k. However, this was offset by an underspend of £284k on Housing Repairs Planned works, resulting in a net overspend of £52k on repairs to housing properties during the 6 month period.

The repairs budget, and the way in which the maintenance programme for housing stock is delivered, is currently subject to an in-depth review by Savills, in consultation with officers, tenants and elected members. The financial outcomes of this review will be incorporated into the HRA budget for 2017/18 onwards.

8.2 **Housing Capital Programme** - The original HRA capital budget for 2016/17 was £21,975,158. This has now increased following the addition of approved carry forwards (£2,460,900) in relation to schemes not completed in 2015/16. This gives a total budget of £24,436,058 for the year. At the end of September spend was £3 million below the budget profile due to work on some contracts starting later than forecast. Therefore, it is anticipated that it may be necessary to seek approval to carry forward some of the budget into 2017/18 to enable these works to be completed.

8.3 **Future Pressures on the HRA** – In the July 2015 Summer Budget the Chancellor announced a number of changes that will have an impact on the delivery of housing services and the financial viability of the HRA Business Plan. The most significant change was the requirement to reduce social housing rents in England by 1% a year for 4 years from 2016/17. It is estimated that this change will result in a loss of £10 million of rental income over the 4 year period. Officers are currently modelling various options for the Business Plan and a separate report will be presented to Members shortly.

9.0 2017/18 BUDGET PREPARATION PROCESS

9.1 The budget preparation process started in September when budget working papers and guidelines were issued to budget holders. The budgets are prepared on an 'incremental' basis i.e. taking last year's budget as the base and making adjustments for the following:

- Variances that have been reported to and approved by the Cabinet.
- Pay inflation – an allowance of 1% in future years.
- Energy and property maintenance inflation as advised by the Facilities Maintenance Manager.
- Contract inflation as specified within contracts – assuming
 - RPI of 2.0% in 2017/18 and 3.0% in future years; and
 - CPI of 1.0% in 2017/18 and 2.0% in future years.
- Business rates are based on the RPI in the previous September – a rate of 2% for 2017/18 and 3% in subsequent years is assumed.
- No inflation on other general items of expenditure including grants to voluntary organisations.
- Fees and charges increases – an increase of 3% per annum for the period of the MTFP but only where it is considered that the market will bear such an increase.

These budget assumptions will be revised on a continual basis as we move through the budget process and as more up-to-date information becomes available. Cabinet is asked to note the budget setting guidelines.

9.2 In terms of the Member reporting process:

- a) Quarter 2 budget monitoring and updated medium term forecast report for Cabinet (November) and full Council (December).
- b) Approval of the Localised Council Tax Support Scheme for 2017/18 to the full Council in December.

- c) Monthly Corporate Cabinet/Corporate Management Team budget priority setting workshops arranged from September through February;
- d) Executive Member portfolio budget reports will be produced for consideration in early December.
- e) The Cabinet will consider the first draft budget in mid-December and the final budget report in February.
- f) The full Council will approve the final budget and council tax at the end of February 2017.

Updates will also be provided to the Overview and Performance Scrutiny Forum at key stages in the process.

- 9.3 Consultation with the public – a new consultation process was introduced for the 2015/16 budget setting process which involved presentations and voting exercises at the four Community Assembly meetings during November. The feedback on this new arrangement was generally positive. New arrangements for community engagement were introduced for 2016/17 and community assembly meetings were stopped. However, it is proposed that we hold a one-off community assembly in January to facilitate consultation with the public with a similar format to previous years.

10.0 Risk Management

- 10.1 Budget forecasting, particularly over the medium term, and in the current economic climate is not an exact science. Assumptions have to be made about possible changes where the final outcome could be very different e.g. government grants, pay awards, investment returns, etc. A full budget risk assessment will be included in the budget setting reports later in the process.

11.0 Legal Considerations

- 11.1 There is a legal requirement for the Council to set a balanced budget before the start of each financial year and for the Director of Resources to report on the robustness of the estimates and the adequacy of the reserves. Clearly, there is lot of work to be done over the coming months to reduce the budget deficit forecast in the current financial year and to be in a position to set a balanced budget for 2017/18 in February 2017.

12.0 Conclusions

- 12.1 We are facing a potentially significant budget deficit in the current financial year and some major financial challenges in the years ahead. It is possible that the current years' deficit could be reduced through tight budgetary control through the remainder of the year and the delivery of further savings, with any residual deficit being met from reserves. But we have to maintain our focus on the medium term where the scale of the forecast deficits is such that some significant budget savings are going to have to be implemented. At the same time there are a number of risks that could add further pressure to the forecast deficits in future years e.g. impact of 2017 revaluation on Business Rates income.
- 12.2 The sooner the savings are made the better, as any delay will add further pressure to the future. For example, the £594k deficit forecast for 2017/18 will require savings equivalent to £50k per month to be found if implemented from the 1st April 2017 but the monthly target will double to £100k if implementation is delayed by six months. Achieving savings of this magnitude will require some fundamental changes to the range and quality of the services the Council provides.
- 12.3 Delivering the required budget savings has to be the number one corporate priority.

13.0 Recommendations

- 13.1 To note the financial performance in the first half of the financial year and the new medium term forecast (Sections 4 and 7).
- 13.2 To note the Efficiency Plan submitted to DCLG (para 3.2).
- 13.3 That the proposed use of reserves as set out in Section 6 of the report be reviewed and confirmed.
- 13.3 To note the changes to the HRA budgets (Section 8).
- 13.5 That the budget preparation guidelines in para. 9.1 be approved.

13.6 That the approach to budget consultation be considered (para. 9.3).

14 Reasons for recommendations

14.1 To monitor the Council's finances.

Decision information

Key decision number	660
Wards affected	All
Links to Council Plan priorities	

Document information

Report author	Contact number/email
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	Efficiency Plan 2016/17 to 2019/20