

For publication

Month 2 Budget Monitoring 2018/19 & Updated Medium Term Financial Plan

Meeting:	Council Cabinet
Date:	18 th July 2018 17 th July 2018
Cabinet Portfolio	Deputy Leader
Report by:	Director of Finance & Resources

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1.0 Purpose of report

- 1.1 To provide the Council with an update on the budget position at the end of month 2, covering:
- General Fund Revenue
 - General Fund Capital Programme
 - Housing Revenue Account
- 1.2 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 two months of the financial year and the new medium term forecast (Sections 4 and 8).
- 2.2 That the changes to the medium term forecast outlined in Section 4 are approved.
- 2.3 That the proposed use of reserves as set out in Section 5 of the report be agreed and the new applications for funding in paragraph 5.2 be approved.
- 2.4 To note the updated capital programme outlined in section 7.
- 2.5 That the additions to the capital programme detailed in paragraph 7.2 are approved including Beetwell Street car park, Barrow Hill engine shed and the Winding Wheel.
- 2.6 That the financing of the capital programme detailed in paragraph 7.3 is approved.
- 2.7 To note the position on HRA budgets (Section 8)

3.0 Background

- 3.1 The Council approved the original budget for 2018/19 on 22nd February 2018. The Band 'D' Council Tax was set at £159.89. The forecast budget for 2018/19 was a surplus of £56k.
- 3.2 All of the indications are that the medium term outlook will continue to be challenging. The Medium Term forecast approved by the Council on 22nd February 2018 showed increasing deficits of £291k in 2019/20 rising to £1.0m by 2021/22.

4.0 Current Year's Budget

- 4.1 We started the year with a forecast surplus of **£56k**. At the end of the second month, known variances have produced an

anticipated surplus forecast of **£298k**. A summary of the key variances is provided in the table below:

2018/19 UPDATED BUDGET FORECAST - TO MONTH 2		
Surplus Forecast at the start of the year		(56)
<u>Budget Saving - increased income:</u>		
Business Rates (BR - 100% BR Pilot growth and BR growth)	(697)	
Contribution from Reserves – ICT Digital Innovation	(242)	
Spirepride Surplus	(40)	
Legal Fee's Income	(23)	
Cemeteries	(12)	(1,014)
<u>Budget Saving - reduced expenditure:</u>		
Contribution from HRA – Grants to Voluntary Organisations	(80)	
Private Sector Housing Staffing Costs funded by Disabled Facilities Grants	(59)	(139)
<u>Budget Increase - reduced income:</u>		
Pavements Rent Review	79	
Tapton House Rental Income	20	
Reversal of Contribution from Business Rates Reserve to fund future risks	252	351
<u>Budget Increase - increased expenditure:</u>		
Waste Collection	21	
Linacre Site Preparation	80	
ICT Digital Innovation	402	
Holiday Pay	50	
Venues Restructure – staffing costs	12	565
Other Miscellaneous Movements		(5)
Updated Surplus Forecast		(298)

4.2 Changes to Approved Budgets

- 4.2.1 100% Business Rate retention – due to uncertainty on the impact of becoming a pilot authority the original forecast did not include any additional income arising from this. Now that the model for distribution of growth has been finalised, the additional estimated benefit of becoming a pilot authority and general estimated growth has been included in the budget figures for 2018/19 and provides an additional business rate income estimate of £697k.
- 4.2.2 Contribution from Business Rate Reserve – the original budget included a contribution of £252k from this reserve. The proposal is to remove this contribution to maintain the Business Rate Reserve at current levels to meet anticipated deficits through increasing appeals in business rate income in 2019/20.
- 4.2.3 ICT Digital Innovation – the approved revenue costs associated with this project have been included in the Medium Term Forecast and the ICT digital innovation reserve has been used to partially offset the costs of this development.
- 4.2.4 A number of small savings were identified as a result of an exercise which took place in the final quarter of 2017/18 and these have been built into the medium term forecast. This includes the proposal to fund an element of the current grants to voluntary organisations from a contribution from the HRA of £80k per annum.
- 4.2.5 Recent changes in legislation relating to the payment of holiday pay entitlement for overtime is estimated to increase costs by £50k per annum for 2018/19 onwards. The impact of this has been included in the latest forecast.
- 4.2.6 A restructure of staffing at the Venues is currently underway and the probable small payroll impact of this has been included in the medium term forecast.

4.2.7 An assessment of underspends identified in 2017/18 has been made with any variances of a recurring nature being built into the updated medium term forecast.

4.2.8 Additional preparatory work and appointment of advisors to the Council to enable the sale of land at Linacre Rd has been included in 2018/19. These will be met from the capital receipt generated from the sale. However the cost of this is included in the medium term forecast.

5.0 Reserves

5.1 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 two major reserves where the Council has wider discretion on how they are used – the Budget Risk Reserve and the Service Improvement Reserve.

5.2 **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 are two new applications to the fund to note:

1. D2N2 careers strategy – contribution to enterprise advisor network.
2. Provision to cover possible redundancy costs as a result of the Venues restructuring proposals.

Budget Risk Reserve	Updated Forecast £'000
Balance b/fwd 1st April	683

Less Approved Commitments:	
Transfers to other reserves	(69)
Private sector stock survey	(26)
17/18 carry forward – Peak Resort business case	(30)
Tourism	(2)
Skills Action Plan	(2)
Venues redundancy provision	(70)
D2N2 – enterprise advisor network	(12)
Kiosk Payment Terminals x 3	(14)
Pavements – rough sleeping solution	(15)
IDOX – reimbursement	39
Uncommitted Balance	482

5.3 **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.

Service Improvement Reserve	Updated Forecast £'000
Balance b/fwd 1st April	339
Less Approved Commitments:	
Linacre Master Planning	(10)
HS2 Project Officer – 2yrs FTC	(62)
Former QPSC – business case	(5)
TPIC/DIC - Reimbursement	76
Uncommitted Balance	338

5.4 The uncommitted balances in these two major reserves have now reduced to £0.82m. 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.

6.0 Medium Term Outlook

6.1 The latest medium term forecast indicates increasing deficits in future years. The deficits beyond 2018/19 are challenging without officer and member plans to increase income, reduce costs and reduce net expenditure. The Council has a number of savings and income generation opportunities:

- Business plans reducing the venues and sport centre subsidies
- Potential VAT savings on sports venues
- Procurement savings
- Tighter control on spending
- Greater capital receipts through grants and asset disposals

6.2 However, the Council also faces a number of costs pressures on budgets including:

- Inflation on pay and non-pay costs
- Business Rate appeals
- Declining rents across particularly across our retail portfolio
- Resourcing (staffing and resource) demands to deliver services
- Government policy changes
- Loss of all NHB and RSG

6.3 The table below compares the latest forecast with the original budget forecast:-

	Budget Forecasts				
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
February 2018 budget Deficit / (Surplus)	(56)	291	848	1,010	1,000
Increase / (Decrease) Month 2	(242)	200	447	636	464
Latest Forecasted Deficit / (Surplus) Month 2	(298)	491	1,295	1,646	1,464

Transformation Projects - Savings to be Achieved	25	100	100	100	100
Cease and Reduce Programme - Savings to be Achieved	25	53	53	53	53
CBC GF Properties - Business Rates Appeals	0	0	78	80	82
Latest Savings Requirement	(248)	644	1,526	1,879	1,699

7.0 General Fund Capital Programme

7.1 **Capital Receipts** - To date, £48k of capital receipts have been received during 2018/19. The original forecast for the year was £2.4m and included the rephasing of capital receipts for land at Ashgate Road, New Square and Poolsbrook currently all under offer. The current forecast of capital receipts for the year is £2.2m. Further large capital receipts need to be identified by the Council beyond 2019/20 when the 'pipeline' declines, otherwise the Council's borrowing will increase to fund further capital projects, putting more pressure on the General Fund deficits.

7.2 **General Fund Capital Spend** –the original capital budget for 2018/19 was £10m, the revised position now stands at £15.5m (see appendix A for details). This includes £2.6m in respect of slippage from the 2017/18 capital programme. The other major differences in the capital programme are:

- Inclusion of Winding Wheel expenditure in respect of redecoration and toilet refurbishments £210k (approved Cabinet 20th Feb 2018), plus an additional £125k in respect of asbestos works £50K and increased costs of the refurbishment project with the final tenders being £75k over budget;
- Essential repairs required to Barrow Hill Railway Bridge (estimate £100k);
- Inclusion of the 2018/19 costs associated with the Information and Communication Technology Review (£2.2m approved by Council 25th April 2018);

- Inclusion of works to Somersall Park Play Area (£48k) to be fully funded from S106 contributions and grants;
- Beetwell Street car park - Kier undertook a full condition survey and inspection of the Beetwell Street Car park at the end of 2017 as is normally expected every few years. They highlighted work to be conducted within 12 months. The estimated capital budget required for this work is £400k comprising: scaffolding £120k, repairs £180k and £100k to replace a barrier and fill in pot holes.

7.3 Net Capital Financing – The original 2018/19 capital programme assumed a break even position and was approved by Council on 22nd February 2018. The full amount of the Sheffield City Region Infrastructure Fund contribution towards the Northern Gateway schemes (£5.8m) was received in March 2018 in advance of the works, and this will allow the grant contribution to be applied in full in 2018/19 with a re-profiled CBC contribution occurring in 2019/20. Borrowing of £3.2m is required in 2018/19 and £1.3m in 2019/20 to fund Saltergate MSCP (£3m) and the increased capital programme. Repayment of prudential borrowing from capital receipts obtained in 2017/18 has been deferred in order to fund the increased capital programme. The repayment of prudential borrowing in respect of the Town Hall Restack will take place in 2020/21. An updated capital programme will be reported to members in October 2018.

8.0 Housing Revenue Account (HRA)

8.1 Housing Revenue - At the end of month 2 rental income was slightly ahead of target due to a reduction in void losses. The main expenditure items were on target, including Housing Repairs where the second £500k budget reduction was made in 2018/19 as part of the measures to improve the financial viability of the Business Plan.

8.2 Housing Capital Programme - At the end of month 2 the majority of claims from contractors for work carried out in the

period were still outstanding. Therefore, the position on HRA capital will be reported in the next monitoring report.

8.3 HRA Business Plan - The 30 Year HRA Business Plan is due to be reviewed shortly to account for changes since the last version was presented to Cabinet on 19th December 2017. This includes accounting for underspends in 2017/18, approved budget carry forwards, right to buy sales, any changes to the capital programme, inclusion of the HRA element of the ICT Digital Innovation project and reviewing the assumptions made in respect of bad debts, voids, inflation rates etc. The revised Business Plan will be presented to Cabinet at a future date.

9.0 Risk Management

9.1 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 year.

10.0 Legal Considerations

10.1 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 Finance and Resources to report on the robustness of the estimates and the adequacy of the reserves. Clearly, there is a lot of work to be done over the coming months to be in a position to set a balanced budget for 2019/20 in February 2019.

11.0 Conclusions

11.1 Work continues to identify savings and to raise income. Already officers are developing VAT saving proposals, zero subsidy

plans on venues and sports facilities, procurement savings, efficiency savings, cost control etc. We are still facing a budget deficit in the next financial year and some major financial challenges in the years ahead. Officers and members will have to agree plans to reduce the deficits as under the Local Government Act 2012 the Council must provide a balanced budget. Decisions on where costs/services have to be managed, investment focused/reduced and income raised will have to be continued by the Council to formulate medium term plans. At the same time there are a number of risks that could add further pressure to the forecast deficits in future years e.g. Business Rates income, Universal Credit, retail rents, inflation, staffing resource and the economy (Brexit).

12.0 Recommendations

- 12.1 To note the financial performance in the first two months of the financial year and the new medium term forecast (Sections 4 and 8).
- 12.2 That the changes to the medium term forecast outlined in Section 4 are approved.
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13.0 Reasons for recommendations

- 13.1** To actively manage the Council's finances in the current financial year and forecast forward the emerging budget position to future financial years.

Decision information

Key decision number	822
Wards affected	All
Links to Council Plan priorities	To become financially self-sufficient by 2020

Document information

Report author	Contact number/email
Helen Fox	Ext. 5452
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	Revised Capital Programme