FOR PUBLICATION

AGENDA ITEM

REVENUE AND CAPITAL BUDGET MONITORING AND UPDATED MEDIUM TERM FINANCIAL FORECAST – J000

MEETING:	COUNCIL
DATE:	16 DECEMBER 2015
REPORT BY:	CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY FORUM:	ALL
KEY DECISION REF:	566

FOR PUBLICATION

BACKGROUND PAPERS FOR PUBLIC REPORTS:
TITLE: Working Papers LOCATION: Accountancy

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

1.2 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 half of the financial year and the revised medium term forecast (Section 4).

2.2 To approve the changes to the General Fund Capital Programme (Section 5).

2.3 To approve the new proposed uses of reserves (Section 6).

2.4 To note the changes to the HRA budgets (Section 8).

3.0 BACKGROUND

3.1 The Council approved the original budget for 2015/16 on 26th February 2015. The Band 'D' Council Tax was frozen at £144.89. After allowing for planned savings of £586k, there was a forecast net budget deficit of £94k. Importantly, this position was only achieved after assuming that all the New Homes Bonus allocation (£616k) and the whole of the estimated gain from Business Rates Pooling (£404k) are used to support the budget.

3.2 All of the indications are that the medium term outlook will continue to be challenging. Provisional Government Grant allocations beyond 2015/16 were not announced as part of the 2015/16 settlement. Any announcement for 2016/17 and future years will follow the release of the 2015 Spending Review on 25th November 2015. The Medium Term forecast approved by the Full Council on 26th February 2015 showed deficits, before the savings targets are taken into account, of £1.4m in 2015/16 rising to £2.5m by 2019/20.

3.3 This report and its recommendations were considered by Cabinet at its meeting on 1 December, 2015 where it was resolved that the recommendations be supported.

4.0 CURRENT YEAR'S BUDGET

4.1 We started the year with a forecast deficit of £94k after allowing for £586k of savings. At the end of the second quarter adjustments to the savings target and other variances have produced a revised deficit forecast of **£393k**. A summary of the key variances is provided in the table below:

2015/16 UPDATED BUDGET DEFICIT FORECAST – QUARTER 2		
Deficit Forecast at the start of the year		94
Budget Saving - increased income:		
Sports Centres	(149)	
Building Control	(14)	
Planning (net of additional staffing costs)	(170)	
Reinstate THI grant written off in 2014/15	(70)	
Recovery of dangerous building costs	(24)	(427)
Budget Saving - reduced expenditure:		
Energy budgets (Sports Centres, Venues, Parks, Market Hall, Community Rooms)	(148)	
External Audit Fee	(20)	
Vacancy savings above profiled allowance	(90)	
Car Parking & CCTV merger	(26)	(284)
Budget Increase - reduced income:		
Property Rents	42	
SpirePride surplus	28	
Car Parking	27	
Open Market	54	
Market Hall	20	171
Budget Increase - increased expenditure:		
Card payment transaction costs	69	
Provision for Living Wage	60	
Back-dated income system maintenance	37	166
Adjustments to savings Targets:		
Reversal of original budget	586	
GPGS Team - prev to be met from savings	106	692
Net of all other variances		(19)
Updated Deficit Forecast		**393**

4.2 There are also two areas of ICT expenditure, PSN compliance and ICT project days, that are likely to produce significant budget overspends in the current financial year. The increases have not been included in the revised forecast above because the proposal is to fund them from the Budget Risk Reserve. A description of each overspend is provided below:

a) PSN compliance

The investment in the ICT network and hardware has been unexpectedly higher in 2015/16 because of the difficulty in achieving PSN compliance. The council should have achieved compliance in February 2015, but failure to tackle the most critical issues in time meant that most of the investment and work (project days) fell into the next financial year, 2015/16. The Cabinet Office granted some breathing space by allowing the council to address the replacement of its 2003 servers in time for the next submission in May 2016. Whilst this allowed us to receive our PSN certificate, it does mean that a significant programme of work continues throughout the remainder of 2015/16, creating, in effect, a double dose of PSN work within one financial year.

The picture is not entirely negative, however, and two things should be taken into account.

1. Much of the server and application replacement work was long overdue and would have to be done anyway – forming part of the total cost of ownership.
2. PSN compliance in previous years cost the council 25% more in terms of project days on a yearly comparison.

It is hoped that by 2016/17, the ICT network will be in a much more stable and managed position, and the council may even be in a position to achieve a two-year PSN certificate.

b) Project days

In addition to spend on hardware and software, a significant additional cost comes from spend on ICT project days. We are currently under the 500 days allocated as part of the contract. However, by the end of the financial year we will have exceeded the allocation by a significant amount. The volume of work required to achieve the double PSN compliance, replace the website, support the Town Hall and QPSC projects is likely to take us over by about 300 days. Without this extra project work, the number of days would probably stay under 500.

Where possible, the number of project days is kept to a minimum. For example, rather than use arvato project days for the website migration, we will use cheaper, external freelance editors and a cost of £10k has been added in for this.

The table below provides details of how the combined over-spend of £246k has been calculated:

PSN and ICT Project Days Budget Requirement	
	£'000
PSN Compliance 2014/15 - expenditure and commitments to date in 2015/16	254
Plus planned expenditure:	
2003 Server Replacements	35
IT Health Check	15
Secure Certificate	10
Website	10
Project Days	61
QPSC Project Days	7
Total Expenditure	**392**
Less 2015/16 ICT Reserve budget	(146)
Overspend in 2015/16	**246**

4.3 The revised forecast includes an allowance of £60k for implementing the Living Wage for staff in 2015/16. The actual cost will, however, depend on what date it is effective from.

4.4 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 2015/16. The actions being taken to reduce the forecast deficit include a freeze on non-essential expenditure and stricter vacancy control measures.

4.5 The first draft budget report for 2016/17, including revised estimates for 2015/16, will be presented to the Cabinet in December. The draft budget report will provide a more up-to-date and comprehensive budget forecasts.

5.0 GENERAL FUND CAPITAL PROGRAMME

5.1 Capital Receipts - To date, capital receipts of £256k have been received. The original forecast for the year was £5.6m but was revised down in the Quarter 1 budget monitoring report to just £2.9m. The £2.9m has now been revised down further to just £287k. This further reduction is due to having to move the four remaining high value sales (Newbold School, Whitebanks Sports Ground, 6 Ashgate Road and land at Winsick) into 2016/17.

5.2 General Fund Capital Spend –the original capital budget for 2015/16 was £14.7m. The revised forecast is £11.1m, the £3.6m reduction is due to:

- The removal of the Saltergate Offices acquisition - £1.7m;
- A reduction in expenditure funded from the Vehicle & Plant Reserve, ££0.6m;
- Re-profiling of expenditure on the new Queen's Park Sports Centre £0.5m;
- Town Hall Alterations moving into 2016/17, £0.5m;
- The Car Parking Improvement scheme, which is to be financed from reserves, being moved into 2016/17, ££0.3m;

5.3 There is one further change to the Capital Programme to note. Due to continuing demand for Home Repairs Assistance the budget has been re-instated to its previous level of £275k per annum, from £200k currently. The increased budget will be financed by using grant monies repaid to the Council from previous grants.

5.4 Net Capital Financing – The original budget showed a surplus of £1.2m. The revised forecast shows that a break-even position could be achieved as follows:

	£ million
Original forecast surplus	**1.2**
Reduced capital receipts	(5.3)
Reduced use of reserves	(0.8)
Reduced borrowing	(0.6)
Reduced expenditure	3.6
Deferred debt repayment	1.1
Increased/re-profiled grants	0.8
Revised forecast	**0**

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. The buying-out of a lease for an IT system at a cost of £99k but this will produce an on-going revenue budget saving of £30k per annum. The revenue savings will be used initially to repay the funds allocated from the reserve.
2. The cost of implementing changes, including additional ICT project days from Arvato to achieve PSN compliance, as described in para. 4.2.

Table – Budget Risk Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**781**	
Less Approved Commitments:		
STWA tenants consultation exercise	**(30)**	
Land Charges claims - paid	**(35)**	
Land Charges claims – outstanding balance	**(9)**	
Land Charges claims – New Burdens grant	**64**	
Erin Road Pumping Station	**(50)**	
External legal advice re works in default	**(3)**	
Learning & Development - training	**(6)**	
15/16 Growth – private sector stock survey	**(26)**	
15/16 Growth – Data Custodian Officer	**(17)**	
14/15 carry forward – Local Plan	**(14)**	
14/15 carry forward – Env Services ICT system	**(4)**	

14/15 carry forward – Election expenses	**(6)**	
Alderman Celebrations	**(5)**	Cnl 22 July
Digital Content Officer post	**(18)**	Cnl 22 July
Contribution to group litigation claim for damages re incorrect VAT treatment	**(14)**	
Dilapidation costs Whitting Valley Road	**(20)**	
Buy-out ICT system lease to save £30k pa	**(99)**	Repay from 16/17
PSN compliance and ICT Project Days	**(246)**	
CMT restructure – severance costs	**tbc**	
Uncommitted Balance	**243**	

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	**285**	
Less Approved Commitments:		
Customer Service Strategy - capital	**(105)**	
Local Collective Agreement	**(10)**	
Car park improvements	**(111)**	
Venues refurbishment	**(33)**	
Community Infrastructure Levy	**(5)**	
Uncommitted Balance c/fwd	**21**	

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	**1,154**	
Less Approved Commitments:		
Linacre Master Planning	**(40)**	
Linacre Master Planning – second tranche	**(20)**	Cnl 22 July GF 2/3 share
Project Academy (balance)	**(52)**	
Venues refurbishment	**(20)**	
Car parking improvements	**(15)**	
Innov Centres – telephony system	**(204)**	
Innov Centres – telephony system - repayments	**25**	
Northern Gateway	**(100)**	
Open Market reconfiguration	**(23)**	
Contribution towards GPGS costs in 2015/16	**tbc**	
Uncommitted Balance	**705**	

6.5 The uncommitted balances in these three major reserves have now reduced to £0.9m, from £2.2m 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.

6.6 The General Working Balance has been reduced from £1.75m to £1.5m when the budget was set in February 2015 reflecting the perceived reduced risk at that time of the Business Rates Retention and the Localisation of Council Tax Support schemes. The risks and amounts retained in this and all other reserves are reviewed each year as part of the budget setting process.

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 £300k due to the Council's unfunded balance of the Business Rate Account deficit in 2014/15. The table below compares the latest forecast with the original budget forecast (before savings targets) approved in February and the last monitoring report:

Budget Deficit Forecasts			
	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**
Latest Forecast*	**393**	**1,560**	**1,702**
At Quarter 1	490	1,793	1,875
Feb 2015 Budget	680	1,379	1,760

* NB: The "latest forecast" does not include any provision for an increase in Members Allowance costs that could be recommended by the Independent Remuneration Panel.

7.2 In the Summer Budget (July 2015) the Chancellor asked non-protected departments to exemplify savings of 25% and 40% in real terms by 2019/20. What this will mean for local government is difficult to predict. It is possible that ministers will want to ensure social care is protected which will then add further pressure to the remaining unprotected services. Ministers might also take the view that the level of reserves in local government suggest that authorities are not really feeling the pinch yet. Our medium term forecast assumes a 41% reduction in settlement funding by 2019/20 and this has contributed towards the large budget deficits we face in 2016/17 (£1.8m) and future years.

7.3 The cuts in Government funding might require more than just reducing Settlement Funding Assessments and could, for example, include changes to the New Homes Bonus (NHB) scheme. It is widely acknowledged that the NHB is too generous to authorities, particularly shire districts with housing growth, when they also benefit from the growth in council tax income. Some form of reduction in the incentive effect (e.g. to 50% rather than 100% of the national council tax used to calculate the payment) or a reduction in the shire district share (currently 80%) is possible. Our medium term forecast assumes that the scheme will continue unchanged, with the estimated NHB of £0.8m in 2016/17 being used to support the budget, rising to £1.1m by 2019/20. Any reduction in the grant could, therefore, have a serious impact on the Council's finances.

7.4 The current medium term budget forecast also assumes that the Business Rates Pooling arrangement will continue into the future and that the £0.4m gain will be used each year to support the budget. However, the Government approves pooling arrangements on an annual basis so there is a risk that the gain could be withdrawn at some point in the future.

7.5 It is also uncertain at this point in time to what extent our Business Rates income will be affected by the proposals in the Sheffield City Region Devolution Deal to allow any growth to be retained within the region and how this will compare with the £400k we currently get through the Derbyshire Pool.

7.6 The Spending Review which is due to be announced on 25th November 2015 will set out the departmental spending limits but what this means for individual local authorities will not be known until the Provisional Grant settlement is announced, perhaps some weeks later.

8.0 HOUSING REVENUE ACCOUNT (HRA)

8.1 **Housing Revenue -** At the half year all major income sources, including housing rents, were on target. However, expenditure showed an under spend of £740k in the following areas:

- £466k on Housing Repairs planned works.
- £274k on Supervision and Management, mainly due to vacant posts and underspends on supplies and services.

The repairs budget also showed an under-spend in 2014/15 (£636k), and possible revisions to this budget are being considered as part of the Business Plan review (see paragraph 8.3 below).

8.2 Housing Capital Programme - The original HRA capital budget for 2015/16 was £22,866,000. This has now increased following the addition of approved carry forwards (£1,446,590) in relation to schemes not completed in 2014/15, and an additional £400,000 for the RTB Social Mobility Scheme. This gives a total budget of £24,712,590 for the year. At the end of September spend was just below the budget profile, and the indications are that the budget will fully spend by the year-end.

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 is 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 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 process.

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 Chief Finance Officer 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 2016/17 in February 2016.

11.0 CONCLUSIONS

11.1 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, 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. New Homes Bonus allocations and Business Rates income.

11.2 The sooner the savings are made the better, as any delay will add further pressure to the future. For example, the £1.6m deficit forecast for 2016/17 will require savings equivalent to £133k per month to be found if implemented from the 1st April 2016 but the monthly target will double to £267k 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.

11.3 Delivering the required budget savings has to be the number one corporate priority.

12.0 RECOMMENDATIONS

12.1 To note the financial performance in the first half of the financial year and the revised medium term forecast (Section 4).

12.2 To approve the changes to the General Fund Capital Programme (Section 5).

12.3 To approve the new proposed uses of reserves (Section 6).

12.4 To note the changes to the HRA budgets (Section 8).

13.0 REASON FOR RECOMMENDATIONS

13.1 To monitor the Council's finances.

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You can get more information about this report from Barry Dawson: Tel 01246 345451.