<u>For publication</u>

Quarter 1 Budget Monitoring 2017/18 & Medium Term Financial Forecast

Meeting:	Council
Date:	11th October 2017
Cabinet portfolio:	Deputy Leader of the Council
Report by:	Director of Finance & Resources

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 first quarter, covering:
- General Fund Revenue
- Housing Revenue Account

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 quarter of the financial year and the new medium term forecast (Sections 4 and 6).

2.2 That the proposed use of reserves as set out in Section 5 of the report be reviewed and confirmed.

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2.3 To note the update on the HRA budgets (Section 7).

3.0 Background

3.1 The Council approved the original budget for 2017/18 on 23rd February 2017. The Band 'D' Council Tax was set at £154.89. The forecast budget for 2017/18 was a deficit of £209k.

3.2 All of the indications are that the medium term outlook will continue to be challenging. Any budget announcement for 2018/19 and future years will follow the release of the 2017 Spending Review in November 2017. The Medium Term forecast approved by the Full Council on 23rd February 2017 showed increasing deficits of £458k in 2018/19 rising to £1.7m by 2020/21.

3.3 The Queens speech in June 2017 contained no bills relating to local government finance. The previously anticipated changes to 100% business rate retention expected before the June 2017 election have been deferred for at least the next two years. There are increasing calls for changes to the public sector pay cap which may put further pressure on budgets in future years. Our current budget figures include an allowance for a 2% increase in pay from 2018/19.

3.4 This report was considered by Cabinet at its meeting on 25 July, 2017, where it was resolved that the report and its recommendations be supported.

4.0 Current Year's Budget

4.1 We started the year with a forecast deficit of £209k assuming savings of £76k from the 'Stop or Reduce' programme. At the end of the first quarter other variances have produced a revised deficit forecast of **£258k**. A summary of the key variances is provided in the table below:

2017/18 UPDATED BUDGET DEFICIT FORECAST – TO QUARTER 1		
Deficit Forecast at the start of the year		209
Budget Saving - increased income:		

Car Parking – Saltergate MSCP refurbishment delay to 2018/19	(100)	
Crematorium Trading Surplus – maintaining some of the 2016/17 growth	(75)	
New Homes Bonus	(8)	
Crèche Lease	(5)	(188)
Budget Saving - reduced expenditure:		
Venues Contribution to Property Repairs Fund – winding wheel lifts moved to capital programme	(105)	
Park Ranges employee and vehicle costs	(24)	
Court Costs	(9)	
Bank Charges	(5)	(143)
Budget Increase - reduced income:		
Industrial Estates Rents	42	
Open Markets	22	
CCTV Monitoring	9	
Substation Leases	7	80
Budget Increase - increased expenditure:		
Energy Costs (Following tender in December 2016 and significant market price increases in Qtr1 2017)	112	
Business Rates Revaluation – following VO 2017 review increasing rates on our sports venues and other assets	114	
Museum Store (Transfer Capital Programme)	38	
Building Control WIP Income Transfer	20	
Holmebrook By-Election	10	294
Net of all other variances		6
Updated Deficit Forecast		**258**

4.2 Changes to Approved Budget

4.2.1 A tendering exercise using the Schneider framework for the supply of energy has increased costs by £112k for 2017/18 due to significant market price increases. Further procurement work is ongoing to retender in 2018/19 and minimise this increase in future years.

4.2.2 The 2017 revaluation of business rates has led to an increase of £114k for council owned properties. Appeals have been lodged with the Valuation Office for a number of our properties but the outcome of the appeals will not be known for several months.

4.2.3 The decision to delay the refurbishment of Saltergate MSCP has increased the income included in the original budget by £100k for 2017/18.

4.2.4 The decision to fund the lift replacement at the Winding Wheel via PWLB borrowing as generated a one-off reduction in property repair fund contributions of £105k in 2017/18.

4.2.5 Based on the trading surplus generated by the Crematorium in 2016/17 our share of the trading surplus for 2017/18 onwards has been increased by £75k assuming we maintain 50% of the uplift from last year.

4.2.6 The Cabinet meeting on 27th June 2017 approved a supplementary estimate of £5k for 2017/18 for development of a skills action plan (funded from reserves therefore not detailed in the table at 4.1).

4.3 The updated deficit forecast of £258k (Original Budget £209k) 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 2017/18.

4.4 The Council still has a stop and reduce programme in development as set out in the budget to deliver £76k of savings this year. In addition savings in terms of Voluntary Redundancies (VR) and terms and conditions remain in the budget. Further savings initiatives are being considered and developed.

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 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.

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. The reserve has fallen in recent years as the Council has managed VR. There will be other commitments to include as decisions on new VR/VER applications are determined.

Table – Budget Risk Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**446**	
Less Approved Commitments:		
Land Charges claims	**(7)**	
Private sector stock survey	**(26)**	
16/17 carry forward – Tidy Streets	**(2)**	
Contribution to group litigation claim for damages re incorrect VAT treatment	**(6)**	
Skills Action Plan	**(5)**	
IDOX – reimbursement (Year 2) IDOX – reimbursement (Future Years)	**30** **39**	
Uncommitted Balance	**469**	

5.3 **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. Any future bids will have to demonstrate how they can repay the investment back, otherwise they will should not be approved.

Table - Invest-to Save Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**252**	
Less Approved Commitments:		
Local Collective Agreement	**(10)**	
Car park improvements	**(89)**	
Budget Savings Delivery	**(40)**	
Treasury management – Property Funds	**(7)**	
Uncommitted Balance c/fwd	**106**	

5.4 **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	**614**	
Less Approved Commitments:		
Linacre Master Planning	**(19)**	
Car parking improvements	**(15)**	
Innov Centres – telephony system	**(24)**	
Northern Gateway	**(85)**	
Budget Savings Delivery	**(82)**	
Market Hall café refurbishment	**(66)**	
HS2 Project Officer – 2yrs FTC	**(100)**	
TPIC/DIC - Reimbursement (17/18)	**34**	
TPIC/DIC – Reimbursement (future years)	**42**	
Uncommitted Balance	**299**	

5.5 The uncommitted balances in these three major reserves have now reduced to only £0.87m. 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 significant deficits in all years. In 2017/18 the deficit has increased by £49k. The table below compares the latest forecast with the original budget forecast:-

	Budget Deficit Forecasts				
	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2022/22 £'000**
February 2017 budget	209	458	1,218	1,686	1,628

Deficit / (Surplus)					
Increase / (Decrease)	49	49	49	29	32
Latest Forecast Q1	**258**	**507**	**1,267**	**1,715**	**1,660**
GPGS Town Hall Restack savings to be achieved	(47)	115	115	241	241
Stop and Reduce Programme savings to be achieved	75	126	126	126	126
Latest Savings Requirement	**286**	**748**	**1,508**	**2,082**	**2,027**

7.0 Housing Revenue Account (HRA)

7.1 At the end of the first quarter all major income sources, including housing rents, were on target. Expenditure was also in line with the profiled budget with no major variations.

7.2 Future Pressures on the HRA – In March 2016 the "Welfare Reform and Work Act 2016" introduced rent policy within legislation for the first time, the main policy being a 1% reduction in social housing rents for 4 years from April 2016. It is estimated that this change will result in a loss of £10 million of rental income over the 4 year period.

In addition the introduction of Universal Credit to all claimants from November 2017 is likely to result in an increase in rent arrears as payments will be made direct to claimants, meaning that the responsibility for the payment of the rent to the Council will lay with the tenant.

A range of measures to improve the financial viability of the HRA have been agreed by a Steering Group and these are in the process of being implemented. However, the latest budget forecast shows that even if all these measures are successful the HRA Working Balance will fall to £1.4 million by 2021/22.

The HRA 30 Year Business Plan is in the process of being updated with the latest information (including a new stock condition survey) and a separate report will be presented to Members shortly detailing the latest forecast figures.

8.0 Risk Management

8.1 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.

9.0 Legal Considerations

9.1 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 2018/19 in February 2018.

10.0 Conclusions

10.1 We are facing a 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, raising income and 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. A revised MTFP will be developed for October 2017 that will include strategic member and officer decisions to address the increasing budget deficits. 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 (through appeals), delays to savings initiatives (e.g. cease and reduce), Universal Credit, falling income, borrowing pressures, declining reserves, Brexit and the economy.

10.2 The sooner the savings are made the better, as any delay will add further pressure to the future. For example, the £748k savings requirement for 2018/19 will require savings equivalent to £62k per month to be found if implemented from the 1st April 2018 but the monthly target will double to £124k 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.

10.3 Delivering the required budget savings has to remain one of the Councils top corporate priorities.

11.0 Recommendations

11.1 To note the financial performance in the first quarter of the financial year and the new medium term forecast (Sections 4 and 6).

11.2 That the proposed use of reserves as set out in Section 5 of the report be reviewed and confirmed.

11.3 To note the changes to the HRA budgets (Section 7).

12.0 Reasons for recommendations

12.1 To monitor the Council's finances.

Decision information

Key decision number	**743**
Wards affected	**All**
Links to Council Plan priorities	To become financially self-sufficient by 2020.

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	