For publication

Quarter 2 Budget Monitoring 2017/18 & Updated Medium Term Financial Forecast

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Meeting:	Council Cabinet
Date:	13th December 2017 14th November 2017
Cabinet Portfolio	Deputy Leader
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 second quarter, covering:
- General Fund Revenue
- 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 half of the financial year and the new medium term forecast (Sections 4 and 8).

2.2 That the proposed use of reserves as set out in Section 6 of the report be agreed and the two new applications for funding in para. 6.2 be approved.

2.3 That the proposed change to the Financial Strategy with regard to the transfer of OSD surpluses be approved (Section 7).

2.4 To note the position on HRA budgets (Section 9).

2.5 That the budget preparation guidelines in para. 11.1 be approved.

2.6 That the approach to budget consultation be considered (para. 11.3).

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 £208k.

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 move to 100% business rate retention expected before the June 2017 election has 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 1% and additional 1% contingency increase in pay from 2018/19.

3.4 A revised deficit of £258m for 2017/18 was reported to members as part of the Quarter 1 Budget Monitoring 2017/18 & Updated Medium Term Financial Forecast report.

4.0 Current Year's Budget

4.1 We started quarter 2 of the year with a forecast deficit of £258k. At the end of the second quarter other variances have produced an anticipated surplus forecast of **£90k**. A summary of the key variances is provided in the table below:

2017/18 UPDATED BUDGET FORECAST – TO QUARTER 2		
Deficit Forecast at the start of the year		209
Changes reported at the end of Quarter 1		49
Deficit Forecast at the start of Quarter 2		**258**
Budget Saving - increased income:		
Development Control Income	(160)	
Leisure Centre Income	(59)	
Transfer of DSO Surplus to General Fund	(185)	(404)
Budget Saving - reduced expenditure:		
Insurance Tender	(73)	
Property Repair Fund Contributions	(177)	(250)
Budget Increase - reduced income:		
Crematorium Surplus Increase Reported at Q1	75	
Markets Income	43	
Venues Income	25	
Saltergate MSCP Income	40	
Beetwell Street MSCP Income	9	
Commercial Property Rental Income	5	197
Budget Increase - increased expenditure:		
Drain Clearing Services	10	
Chesterfield Half Marathon	10	
Old QPSC Security Hoarding	15	
Parks Security Costs	40	75
Adjustments to savings Targets:		
Cease and Reduce CCTV	22	22

Net of all other variances		12
Updated Surplus Forecast		**(90)**

4.2 Increased Development Control income has been reported to Finance and Performance Board throughout 2017/18 which has resulted in the original income estimate being increased by £160k.

4.3 A full tender for Insurance Services has been carried out during 2017/18 which has resulted in a part year saving of £94k in 2017/18 (estimated £73k saving to General Fund) and a full year saving of £187k in 2018/19 (estimated £146k saving to General Fund). These savings have been achieved whilst increasing coverage in relation to 'insured perils' and maintaining existing excess levels.

4.4 Following meetings with Kier Facilities Maintenance it has been agreed to reduce Property Repair Fund contributions in relation to properties that are currently being refurbished or are scheduled to be sold and to smooth out the reserves over the next 5 years. This has resulted in savings of £177k in 2017/18, £170k in 2018/19 and £155k in future years.

4.5 A proposed change to current financial strategy which would allow Operational Service Division surpluses to be transferred to the General Fund would result in a saving of £185k in 2017/18 and £200k in future years. More information regarding this proposal can be found at paragraph 7.1.

4.6 The first draft budget report for 2018/19, including revised estimates for 2017/18, will be presented to the Cabinet on the 19th December 2017. 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 £171k have been received. The original forecast for the year was £2.0m but was increased in the updated capital programme report to Cabinet in October to £2.4m. The £2.4m has now been revised down to

£1.3m to reflect recent rephasing of capital receipts for land at Ashgate Road and Poolsbrook. Further capital receipts need to be identified by the Council otherwise the Council's borrowing will increase to fund further capital projects, putting more pressure on the General Fund deficits.

5.2 General Fund Capital Spend –the original capital budget for 2017/18 was £8.2m, and this remains the overall revised position. Within the overall capital programme there are variations to individual schemes, the major differences are:

- Inclusion of new fully funded schemes for Peak Resorts (£2.1m), Eastwood Park skate park (£51k), Langer Lane play area (£70k) and Whitebank Close bowls upgrade (£33k);
- An increased allocation for Disabled Facilities Grants from the Better Care Fund (£600k);
- Re-profiling of expenditure on Saltergate multi-story carpark (-£1.9m), Northern Gateway streetworks/environmental improvements (-£700k) and grant to Chesterfield Waterside Ltd (-£470k);
- Refurbishment of Winding Wheel lifts (£100k) and market Hall café (£65k) moving into 2017/18

5.3 Net Capital Financing – The original budget assumed a break even position. The revised capital programme was approved by Cabinet on 3rd October 2017. Internal borrowing of £1.4m is required to fund the Town Hall alterations. Repayment of prudential borrowing from capital receipts obtained in 2016/17 has been deferred pending a review of the decision on how these capital receipts can best be utilised leading to a surplus of £2.0m (Capital Programme expenditure £8.3m available Capital Financing £10.3m). An updated capital programme will be reported to members in February 2018.

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 are two new applications to the fund to note:

1. Consultancy costs for a business case for Peak Resort.
2. Kiosk payment terminal replacements. There are currently two kiosks at the Contact Centre and one kiosk at Staveley Health Living Centre. All three kiosks are coming to the end of their useful economic life and will not be General Data Protection Regulation (GDPR) compliant from May 2018. As a result this could potentially prevent the council from taking cash and cheque payments from our customers.

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)**	
Peak Resort business case	**(25)**	
Kiosk Payment Terminals x 3	**(40)**	
Transferred to Business Rate Reserve (see para 6.6.3)	**(75)**	
IDOX – reimbursement (Year 2) IDOX – reimbursement (Future Years)	**30** **39**	
Uncommitted Balance	**329**	

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	**252**	
Less Approved Commitments:		
Car park improvements	**(89)**	
Budget Savings Delivery	**(40)**	
Treasury management – Property Funds	**(7)**	
Uncommitted Balance c/fwd	**116**	

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. There are two new applications to the fund to note:

1. Consultancy costs for the former QPSC site business case
2. Three year subscription to Investors in People.

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	**(25)**	
Northern Gateway	**(85)**	
Budget Savings Delivery	**(82)**	
Market Hall café refurbishment	**(66)**	
HS2 Project Officer – 2yrs FTC	**(100)**	
Former QPSC – business case	**(30)**	
Investors in People	**(15)**	

TPIC/DIC - Reimbursement (17/18) TPIC/DIC – Reimbursement (future years)	**34** **77**	
Uncommitted Balance	**288**	

6.5 The uncommitted balances in these three major reserves have now reduced to £0.73m. 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 **Transfers Between Reserves**

6.6.1 As part of the 2016/17 year end process, an actuarial review recommended that the Transport Pension Provision be increased by £300k. £100k of this was actioned in 2016/17, and it is proposed that the remaining £200k is financed by transferring balances from other underspent reserves £100k in 2017/18 and £100k 2018/19.

6.6.2 It is also proposed to transfer £175k to the Budget Risk Reserve (assist with Business Rate reserve transfer para 6.6.3) from the ICT Reserve subject to there being a sufficient balance available at year end.

6.6.3 The level of appeals against business rates continues to be a major risk to the General Fund position. There were suggestions prior to the general election that this risk would be transferred to central government. However this proposal seems to have been delayed indefinitely and it is proposed that £250k is transferred from the Budget Risk Reserve and £125k from the Vehicle & Plant reserve to top up the Business Rate reserve to increase our resilience to further appeals.

7.0 Surplus Generated by Operational Services Division (OSD)

7.1 The current financial strategy states that any OSD surpluses in the year which are not required for operational purposes will be transferred to the Housing Revenue Account. OSD are hoping to increase the level of commercial work undertaken and to significantly expand their client base. It is therefore proposed to change the financial strategy to reflect this change in emphasis and for future surpluses to be transferred instead to the General Fund. For 2017/18, this would benefit the General Fund by £185k and £200k in future years. No surplus has been assumed in the HRA budget for 2017/18 and this change would therefore have no impact on the HRA's business plan viability.

8.0 Medium Term Outlook

8.1 The latest medium term forecast indicates significant deficits in future years. In 2017/18 the deficit has reduced by £326k to a £90k surplus. The deficits beyond 2018/19 are unsustainable without officer and member decisions to reduce. Reductions to services may be necessary and tighter control on all capital/revenue spending as well as investment to raise income. The table below compares the latest forecast with the original budget forecast:-

	Budget Forecasts				
	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2022/22 £'000**
February 2017 budget Deficit / (Surplus)	**209**	**458**	**1,218**	**1,686**	**1,628**
Increase / (Decrease) Quarter 1	49	49	49	29	32
Increase / (Decrease) Quarter 2	(348)	(124)	(122)	(184)	(258)
Latest Forecasted Deficit / (Surplus) Quarter 2	**(90)**	**383**	**1,145**	**1,531**	**1,402**
GPGS Town Hall Restack savings to be achieved	(47)	115	115	241	241
Stop and Reduce Programme savings to be achieved	33	86	86	86	86
Latest Savings Requirement	**(104)**	**584**	**1,346**	**1,858**	**1,729**

9.0 Housing Revenue Account (HRA)

9.1 **Housing Revenue -** At the end of the second quarter all major income sources, including housing rents, were on target. Expenditure was also on target, including Housing Repairs where a £500k budget reduction was made in 2017/18 as part of the measures to improve the financial viability of the Business Plan. The only exception is on rates where arrears of £42,883 for the On the Move offices have caused an overspend. However, this is offset by several small underspends in other areas.

9.2 Housing Capital Programme - At the end of September capital expenditure was in line with the profiled budget. It is currently anticipated that the £20m capital budget should be spent by the year-end, provided that there are no delays (though recruitment of skilled builders is challenging) in starting new schemes scheduled for the second half of the year.

9.3 HRA Business Plan - A revised 30 Year HRA Business Plan is due to be presented to Cabinet shortly that shows an improved position as a result of re-phasing the capital programme to incorporate the results of the recent Savills stock condition survey and government housing rents policy announcements. However, the introduction of Universal Credit to all claimants from the end of November 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 rent to the Council will lay with the tenant. The Business Plan includes an increased provision for possible bad debts, but there is the risk that this may not be sufficient.

10.0 100% Business Rates Pilot

10.1 DCLG has recently asked for applications from local authorities to become a 100% Business Rates Retention pilot authority for one year from 1st April 2018. The closing date for applications was 27th October 2017. They were particularly keen to receive applications involving two different tiers of local authority. If the application is successful it would mean that the 50% share of business rate income which currently goes to central government would be retained within the pilot area.

10.2 Derbyshire County Council have put together a bid which includes the county and all district authorities in Derbyshire. Officers from all authorities have agreed the details of the bid.

10.3 The outcome of the bid will be announced in the draft Finance Settlement expected in December 2017.

10.4 If successful a further report will be brought to Cabinet for approval.

11.0 2018/19 Budget Preparation Process

11.1 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% and 1% contingency) 2% in future years.
- Energy and property maintenance inflation as advised by the Facilities Maintenance Manager.
- Contract inflation as specified within contracts – assuming
  - RPI of 3.5% in 2018/19 and 3.0% in future years; and
  - CPI of 2.3% in 2018/19 and 2.0% in future years.
- Business rates are based on the RPI in the previous September – a rate of 3.7% for 2018/19, 3.5% for 2019/20 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.

11.2 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 2018/19 to the full Council in December.
c) Executive Member portfolio budget reports will be produced for consideration in early December.
d) The Cabinet will consider the first draft budget in mid-December and the final budget report in February.
e) The full Council will approve the final budget and council tax at the end of February 2018.

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

11.3 Consultation with the public – 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.

12.0 Risk Management

12.1 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. Current unknowns include: business rates pool outcome, crematorium surplus outcome, business rates appeals, OSD operating outcome and service income to budget.

13.0 Legal Considerations

13.1 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 2018/19 in February 2018.

14.0 Conclusions

14.1 The challenging work to identify savings which has taken place over the summer has enabled us to move from a deficit position at the start of 2017/18 to a small forecast surplus at the end of quarter 2. However, 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(s). Difficult decisions on where costs/services have to be reduced, investment focused/curtailed and income raised will have to be made soon 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. impact of 2017 revaluation on Business Rates income, Universal Credit and the economy (Brexit).

15.0 Recommendations

15.1 To note the financial performance in the first half of the financial year and the new medium term forecast (Sections 4 and 8).

15.2 That the proposed use of reserves as set out in Section 6 of the report be agreed and the two new applications for funding in para. 6.2 be approved.

15.3 That the proposed change to the Financial Strategy with regard to the transfer of OSD surpluses be approved (Section 7).

15.4 To note the position on HRA budgets (Section 9).

15.5 That the budget preparation guidelines in para. 11.1 be approved.

15.6 That the approach to budget consultation be considered (para. 11.3).

16.0 Reasons for recommendations

16.1 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	**756**
Wards affected	**All**
Links to Council Plan priorities	

Document information

Report author	**Contact number/email**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Appendices to the report	