

For publication

Quarter 1 Budget Monitoring 2019/20 & Updated Medium Term Financial Plan

Meeting:	Council Cabinet
Date:	17 th July 2019 16 th July 2019
Cabinet Portfolio	Deputy Leader
Report by:	Acting Chief Finance Officer

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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 quarter 1, 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 quarter 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 growth request outlined in paragraph 4.3 is approved.
- 2.4 To note the reserves position (Section 5).
- 2.5 To note the updated capital programme outlined in section 7.
- 2.6 That the additions to the capital programme detailed in paragraph 7.2 are approved.
- 2.7 That the financing of the capital programme detailed in paragraph 7.3 is approved.
- 2.8 To note the position on HRA budgets (Section 8).

3.0 Background

- 3.1 The Council approved the original budget for 2019/20 on 27th February 2019. The Band 'D' Council Tax was set at £164.89. The forecast budget for 2019/20 was a deficit of £202k.
- 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 27th February 2019 showed increasing deficits of £803k in 2020/21 rising to £1.3m by 2023/24.

4.0 Current Year's Budget

- 4.1 We started the year with a forecast deficit of **£202k**. At the end of the first quarter, known variances have produced an anticipated deficit forecast of **£203k**. A summary of the key variances is provided in the table below:

2019/20 UPDATED BUDGET FORECAST - TO QUARTER 1		
Deficit Forecast at the start of the year		202
<u>Budget Saving - increased income:</u>		
OSD Trading Surplus (Adjusted for Latest Business Plan)	(82)	
Business Rates S31 and Admin Grant	(79)	
Town Hall Rental Income – Housing Services	(35)	(196)
<u>Budget Saving - reduced expenditure:</u>		
Contribution from HRA – Grants to Voluntary Organisations (Approved 2018/19)	(80)	
Private Sector Housing – Staffing Capitalised	(60)	
Cost of Collection – Court Fees	(20)	(160)
<u>Budget Increase - reduced income:</u>		
Spirepride Trading Surplus (Adjusted for Latest Business Plan)	86	
Investment Income	60	
Open Market – Rents (Forecast to year end)	40	
Saltergate MSCP – Revised opening date	31	
Town Hall Rental Income – Delays in arrival of Coroners Court	24	
Legal Fees – Sale of Poolsbrook completed in 2018/19	10	251
<u>Budget Increase - increased expenditure:</u>		
Tapton House – Security Costs and Utilities	52	
Legal Services – staffing	11	
NHS Procurement Contract	11	
Civil Parking Enforcement – 2018/19 deficit	8	82
Other Miscellaneous Movements		24
Updated Deficit Forecast		203

4.2 Changes to Approved Budgets

4.2.1 Tapton House – ongoing revenue costs for security, maintenance and running costs have been included in the

forecast for 2019/20. Other remediation work is required but should be met from the dilapidations contribution from the outgoing tenant.

4.2.2 The reduction in the Spirepride surplus is due to increases in staffing costs following the 2 year pay deal which took effect from the 1st April 2018 and internal recharges. The service is currently focusing on identifying actions to recover this position.

4.2.3 ICT savings delivery – the savings target for 2019/20 is £227k. At quarter 1, £207k of this saving has been achieved.

4.2.4 Interest rates earned on investments have fallen during 2019/20. It is expected that this position will improve in future years when uncertainty regarding Brexit has receded.

4.2.5 Rental income from Markets continues to fall below target. If this current trend continues there will be a shortfall of £40k for the year.

4.2.6 An assessment of underspends identified in 2018/19 has been made with any variances of a recurring nature being built into the updated medium term forecast.

4.3 Growth Requests

4.3.1 A growth request has been received for a car park barrier at Dunston Innovation Centre for £15,000. Further details are included at Appendix A. If approved, it is proposed to fund the growth request through a one-off payment from the Budget Risk Reserve.

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.

Budget Risk Reserve	Updated Forecast £'000
Balance b/fwd 1st April	1,240
Less Approved Commitments:	
18/19 carry forward – Generation of capital receipts	(100)
Health & Safety training	(25)
Relocation of car boot sale	(3)
D2N2 – enterprise advisor network	(5)
Feasibility study – Peak Resorts	(22)
Extend Industrial portfolio	(20)
IDOX – reimbursement	9
Uncommitted Balance	1,074

- 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	315
TPIC/DIC - Reimbursement	43
Uncommitted Balance	358

5.4 The uncommitted balances in these two major reserves is £1.432m. 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 2019/20 are challenging without officer and member plans to increase income and reduce costs. The Council has a number of savings and income generation opportunities:

- Strengthening how the Council procures supplies and services
- Making the right investments in property and in ICT to achieve economies and efficiencies
- Tighter cost controls to avoid overspends
- Increased focused on hitting and exceeding income targets; particularly at our sports centres and cultural venues
- Generating more funding through business rates and new homes bonus
- Voluntary redundancy / voluntary early retirement

6.2 However, the Council also faces a number of costs pressures and uncertainties around budgets including:

- Inflation on pay and non-pay costs
- Retendering of refuse collection contract
- Business Rate appeals
- Declining rents particularly across our retail portfolio
- Resourcing (staffing and resource) demands to deliver services

- Government policy changes
- Loss of New Homes Bonus and Revenue Support Grant
- Lower interest rates on investments
- Continuing uncertainty around Brexit

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

	Budget Forecasts				
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
February 2019 budget Deficit / (Surplus)	202	803	1,125	1,196	1,311
Increase / (Decrease) Quarter 1	1	44	(4)	0	6
Latest Forecasted Deficit / (Surplus) Quarter 1	203	847	1,121	1,196	1,317
Transformation Projects - Savings to be Achieved	20	17	374	605	795
Latest Savings Requirement	223	864	1,495	1,801	2,112

7.0 General Fund Capital Programme

7.1 **Capital Receipts** - To date, £100k of capital receipts have been received during 2019/20. The original forecast for the year was £4.1m and included the capital receipts for land at Poolsbrook and Whitebank Close, and the first payment in respect of the land at Linacre. The current forecast of capital receipts for the year is £4.6m, the increase is due to re-profiling of capital receipts that were expected in 2018/19. 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 2019/20 was £8.5m, the revised position now stands at £14.0m

(see appendix B for details). This includes £3.0m in respect of slippage from the 2018/19 capital programme. The other major differences in the capital programme are:

- Inclusion of Revitalising the Heart of Chesterfield expenditure (£1.4m), of which 75% is to be funded from a successful grant bid from the Derby & Derbyshire Business Rate Growth Fund;
- Purchase of new car parking machines for Beetwell Street, Soresby Street and Rose Hill car parks (£240k);
- Purchase of land in Spire Neighbourhood (£240k);
- Additional Disabled Facilities Grants (£500k), fully funded from the Better Care Fund grant;
- Inclusion of essential underpinning works to Tapton House (£50k)
- Inclusion of £20k for surveys in respect of the feasibility of building new industrial units at Calow Lane.

7.3 Net Capital Financing – The original 2019/20 capital programme assumed a break even position and was approved by Council on 27th February 2019. The 2018/19 capital programme included borrowing for Saltergate MSCP of £3m, however due to slippage in the wider capital programme this was deferred and will now be required in 2019/20. Total borrowing of £4.7m is required in 2019/20 and £120k in 2020/21 to fund Saltergate MSCP (£3m) and the increased capital programme. Repayment of prudential borrowing in respect of the Town Hall Restack has been deferred in order to utilise the capital receipts flexibility in respect of the IT Project and to fund the increased capital programme. An updated capital programme will be reported to members in October 2019.

8.0 Housing Revenue Account (HRA)

8.1 Housing Revenue - Rental income is slightly ahead of target due to void losses being less than forecast. The main expenditure items are on target, except for Housing Repairs

where an increase in Responsive and Change of Tenancy orders has led to an overspend. The Repairs budget will be carefully monitored over the coming months to see if this trend continues.

8.2 Housing Capital Programme - At the end of month 2 there was an underspend of £217k on the Housing Capital Programme. The programme for 2019/20 (budget of £26.5 million) is due to be reviewed shortly and any proposed revisions will be presented to a future Cabinet meeting.

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. This includes accounting for underspends in 2018/19, approved revenue carry forwards, right to buy sales, changes to the capital programme 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 Chief Finance Officer 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 2020/21 in February 2020.

11.0 Conclusions

- 11.1 Work continues to identify savings and to raise income. Already officers are working on 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 produce a balanced budget. Decisions on where costs/services have to be managed, investment focused/reduced and income raised will be required 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 quarter of the financial year and the new medium term forecast (Sections 4 and 8).
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13 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	881
Wards affected	All
Links to Council Plan priorities	To become financially self-sufficient

Document information

Report author	Contact number/email
Helen Fox	Ext. 345452
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	Growth Request
Appendix B	Revised Capital Programme