

For publication

Quarter 2 Budget Monitoring 2019/20 & Updated Medium Term Financial Forecast

Meeting:	Council Cabinet
Date:	11 th December 2019 22 nd October 2019
Cabinet Portfolio	Deputy Leader
Report by:	Acting Chief Finance Officer

For publication

1.0 Purpose of report

- 1.1 To provide Council with an update on the budget position at the end of the second quarter, covering:
- General Fund Revenue Account
 - General Fund Capital Programme
 - Housing Revenue Account
- 1.2 To meet the requirement in the Financial Procedure Rules to provide Council with regular updates on the Council's financial position.

2.0 Recommendations

- 2.1 That the financial performance in the first half of the financial year and the new Medium Term financial forecast be noted (Sections 4 and 6).
- 2.2 That the changes to the Medium Term financial forecast outlined in Section 4 and Section 6 be 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 as set out in para. 5.2 be approved.
- 2.4 That the updated capital programme outlined in Section 7 be noted.
- 2.5 That the additions to the capital programme as set out in para 7.2 be approved.
- 2.6 That the position of the Housing Revenue Account budgets be noted (Section 8).
- 2.7 That the budget preparation guidelines as set out in para. 9.1 be approved.
- 2.8 That the planned approach to budget consultation be considered (para. 9.3).

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 original budget for 2019/20 was established forecasting a deficit of £202k.
- 3.2 All of the indications are that the medium term outlook will continue to be challenging. The Medium Term financial forecast approved by full Council on 27th February 2019

showed increasing deficits of £803k in 2020/21 rising to £1.1m by 2021/22.

- 3.3 A revised deficit of £203k for 2019/20 was reported to members as part of the Quarter 1 Budget Monitoring 2019/20 & Updated Medium Term Financial Forecast report.

4.0 Current Year's Budget

- 4.1 The Council started quarter 2 of this year with a forecast deficit of £203k. At the end of the second quarter this position had significantly improved to an anticipated surplus of £52k at year end. A summary of the key variances is provided in the table below:

2019/20 UPDATED BUDGET FORECAST - TO END OF QUARTER 2		
	£000	Total £000
Deficit at the start of the year		202
Changes reported at quarter 1		1
Deficit forecast at the start of quarter 2		203
<u>Budget Saving - increased income:</u>		
Derbyshire Building Control Partnership Ltd	(44)	
Economic Development Joint Delivery Unit - EZ Funding	(31)	
Town Hall Rental Income (EU Election)	(6)	
Industrial Unit Rental Income	(2)	(83)
<u>Budget Saving - reduced expenditure:</u>		
Spirepride Vacant Posts	(90)	
Increase Staff Vacancy Allowance	(50)	
Remove Electricity Inflation Allowance	(50)	
Building Cleaning Vacant Posts	(20)	
Community Halls	(8)	(218)

<u>Budget Increase - reduced income:</u>		
Parks – football on grass pitches	9	9
<u>Budget Increase - increased expenditure:</u>		
Venues Business Plan (*)	20	
Banking Charges – Capita Income System	11	
Town Hall – Office Moves	4	
Tapton House – Utilities	2	37
Updated Surplus Forecast		(52)

(* The Venues Business Plan will deliver £346k of savings between 2020/21 and 2023/24)

4.2 Changes to Approved Budgets

4.2.1 Vacant posts in both Spirepride and Building Cleaning will cumulatively deliver non-recurring savings of £110k in 2019/20.

4.2.2 The Medium Term financial forecast approved in February 2019 included a Staff Vacancies Allowance of £100k; in previous years this allowance was set at £150k. At the end of quarter 2, £71k of this saving has been achieved therefore the Staff Vacancies Allowance has been restored to £150k.

4.2.3 The Medium Term financial forecast also included an allowance of £50k for additional cost pressures expected from the retendering of the electricity contract. Spend at the end of quarter 2 on electricity suggests that this allowance is not required.

4.2.4 Additional income of £44k from the Derbyshire Building Control Partnership company has been included in the latest forecast. This comprises a £24k recharge to the company in respect of the Assistant Director for Economic Growth carrying out Managing Director duties on behalf of the company and £20k dividend income to be paid from profits generated by the company in 2018/19.

4.2.5 An updated business plan for Venues was considered by the Finance and Performance Board in September which will deliver savings of £346k over five years.

4.2.6 ICT savings delivery – the savings target for 2019/20 is £227k. At quarter 2, £207k of this saving has been achieved.

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. A number of new applications for funding have been received:

1. Feasibility study for the refurbishment of Stephenson Memorial Hall
2. Preparation for phase 2 of refurbishment of Town Hall
3. Project manager to lead on transition of Arvato/Kier contract
4. Assistance with delivery of climate change action plan

Budget Risk Reserve	Updated Forecast £'000
Balance b/fwd 1st April	1,240
Feasibility study – Stephenson Memorial Hall	(50)
Town Hall – Phase 2	(20)
Arvato Transition Project Manager	(66)
Climate Change	(100)
<u>Less Approved Commitments:</u>	
18/19 carry forward – Generation of capital receipts	(100)
Health & Safety training	(25)
Tourism	(3)
Extension of industrial property portfolio	(20)
Feasibility study – Peak Resort	(22)
Domestic Homicide investigation	(1)
Redundancy provision	(64)
D2N2 – enterprise advisor network	(5)
IDOX – reimbursement	9
Uncommitted Balance	773

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
<u>Less Approved Commitments:</u>	
Tendering of waste contract	(58)
TPIC/DIC - Reimbursement	43
Uncommitted Balance	300

5.4 The uncommitted balances in these two major reserves now stand at £1.073m. There will be significant demands on these reserves to fund investment in transformation projects and to pay for severance costs from staffing restructures. The Council should, therefore, continually review the planned 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 financial forecast indicates a much improved position in 20/21 but increasing deficits in future years. The table below compares the latest forecasts with the original budget forecasts noted on 27th February 2019:

	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
Increase / (Decrease) Quarter 2	(255)	(706)	(219)	(264)	(314)
Latest Forecasted Deficit / (Surplus) Quarter 2	(52)	141	902	932	1,003

6.2 The Medium Term financial forecast is based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and pressures are outlined below:

- **Delivering budget savings** at the required level and at the right time continues to be a challenge. The Council has a good track record of tackling budget deficits and delivering savings although it has become more difficult to achieve as easier options are exhausted. Future budget savings proposals are now focused on a number of larger savings programmes rather than those delivering smaller savings. Significant savings from the ICT Digital Innovation Programme have been included within the Medium Term financial forecast and timely delivery of this element of the savings plan is

fundamental to achieving a balanced budget in future years.

- **Fees and charges** income may be affected by the state of the economy particularly with the continuing uncertainty around Brexit. This may have a significant impact on the substantial income generated from car parks, leisure, cultural events and planning fees.
- **Property rents** from our industrial, commercial and retail units are also affected by the state of the economy. Current occupancy levels remain high and the Council continues to invest in its rental properties. However, income from retail property continues to decline and provides an adverse pressure on the Medium Term financial forecast.
- **Pay award** uplifts of 2.5% for 2020/21 and future financial years are included in the Medium Term financial forecast. The pay award for 2020/21 has not yet been agreed. Each 1% increases the costs to the General Fund by £216k per annum.
- **A programme of capital receipts** from the sale of surplus assets has been a significant source of funding for the capital programme. The pipeline of assets sales is reducing which will mean that future capital projects will have to be funded from borrowing. The costs of servicing this borrowing would create further pressure on the Medium Term financial forecast.
- **Borrowing costs** on all new loans from PWLB were increased by 1% across the board without warning on 9th October. This will increase the costs of new borrowing going forward which will have an impact on both the General Fund and HRA and are not included in current budget figures.

- **New homes bonus** payments will more than likely come to an end with a one-off payment for 2020/21. There will be no further legacy payments for 4 financial years and the baseline above which payments are triggered could also be adjusted upwards negating the benefits of new housebuilding taking place across the borough.
- **The Council tax referendum limit** for 2020/21 may be capped at 1.99%. This contrasts with the position in recent years where district councils have been able to increase council tax by 2.99% or £5. A 1% reduction in council tax equates to £48k per annum.

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 capital receipts for the second instalment of land at Poolsbrook, land at Whitebank Close and land at Linacre. The current forecast of capital receipts for the year is £4.5m due to rephasing of the receipt for the Garage Site at Chester Street. Further large capital receipts need to be identified by the Council beyond 2020/21 when the 'pipeline' declines, otherwise the Council's borrowing will increase to fund further capital projects, putting more pressure on the General Fund revenue budget.

7.2 **General Fund Capital Spend** –the original capital budget for 2019/20 was £8.5m, this was increased to £14.0m in July 2019. The revised position now stands at £12.5m (see appendix A for details). Recent adjustments to the capital programme include:

- Changes to the timing of delivery of the Public Realm and Enterprise Centre elements of the Northern Gateway Scheme;

- Works to Stand Road Bowls Pavilion (£70k) to be fully funded from grant;
- Approval granted to build new Commercial Business Units at Calow Lane (£367k), Cabinet decision on 1st October 2019.
- Provision for Town Hall Alterations Phase 2 Preliminary Works (£145k). These works are required to prepare the ground floor former members' office space to enable staff from the upper floors to be decanted during the Phase 2 works.
- Access to D2N2 LEP pre-compliance funding (£1,000k) to progress a series of enabling projects around Chesterfield railway station such as ground investigation, preliminary scheme designs and land assembly. A full business case will be submitted to D2N2 LEP's Investment Board by March 2020.

7.3 Net Capital Financing – The 2019/20 month 2 revised capital programme assumed a break even position and was approved by Council on 17th July 2019. Total borrowing of £3.2m is required in 2019/20 (including £3.0m in respect of Saltergate Multi-Storey Car Park) and £2.0m in 2020/21 to fund the reprofiled Northern Gateway scheme and the increased capital programme. Repayment of prudential borrowing in respect of the Town Hall Restack has been deferred in order to utilise the Government's capital receipts flexibility scheme to support delivery of the Council's Digital Innovation Programme to fund the increased capital programme. An updated capital programme will be reported to members at full Council in February 2020.

8.0 Housing Revenue Account (HRA)

8.1 Housing Revenue - At the end of the second quarter all major income sources, including housing rents, were on target. Expenditure was also on target, except for Housing Repairs

where an increase in Responsive and Change of Tenancy work has led to an overspend.

8.2 Housing Capital Programme – At the end of month 5 there was an underspend of £1.6 million on the HRA Capital Programme. It is, however, currently forecast that most of the £26.5 million capital budget will be spent by the year end. The exception is the Barrow Hill Environmental Scheme where an underspend of £1 million is anticipated due to planning issues with Derbyshire County Council relating to highways. However, some of this underspend may be offset by bringing forward structural works to balconies.

8.3 HRA Business Plan - The 30 Year HRA Business Plan is due to be reviewed shortly to recognise for changes since the last version was presented to Cabinet. This includes accounting for capital underspends in 2018/19, approved revenue carry forwards, right to buy sales, updates 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 2020/21 Budget Preparation Process

9.1 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 Cabinet.
- Pay inflation – an allowance of 2.5% per annum each year.
- Energy and property maintenance inflation as advised by the Facilities Maintenance Manager.
- Contract inflation as specified within contracts – assuming

- RPI of 3.0% in 2020/21 and 3.5% in future years; and
- CPI of 2.5% per annum.
- Business rates are based on the CPI in the previous September – a rate of ??% (tbc) for 2020/21 and 2.5% in subsequent years is assumed.
- No inflation on other general items of expenditure including grants to voluntary organisations.
- Fees and charges increases – an average 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. Annual Fees and Charges reports will be submitted to Cabinet on 12th November 2019.

These budget assumptions will be revised on a continual basis as the Councils moves through the budget process and as more up-to-date information becomes available. Cabinet is asked to approve the budget setting guidelines.

9.2 In terms of the Member reporting process:

- a) Quarter 2 budget monitoring and updated Medium Term financial forecast report for Cabinet (October) and full Council (December).
- b) Approval of the Localised Council Tax Support Scheme for 2020/21 at full Council in December.
- c) The Cabinet will consider the first draft budget for 20/21 in mid-December and the final budget report in February 2020.
- d) The full Council will approve the final budget and council tax for 20/21 at the end of February 2020.

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

9.3 Consultation with the public – it is proposed that we hold a one-off community assembly in January to facilitate

consultation with the public applying a similar format to previous years.

10.0 Risk Management

- 10.1 Budget forecasting, particularly over the medium term, and in the current economic climate is not an exact science. Assumptions have to be made at the time of writing, but 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 financial year.

11.0 Legal Considerations

- 11.1 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 still work to be done over the coming months to be in a position to set a balanced budget for 2020/21 in February 2020.

12.0 Conclusions

- 12.1 Work continues to identify savings and to raise income. We are still forecasting a small budget deficit in the coming financial year and escalating deficits 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 set a balanced budget. The Council will have to take decisions on where costs/services have to be reduced, investment focused and income raised. 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, Fair Funding, retail rents, inflation and the economy (Brexit).

13.0 Recommendations

- 13.1 That the financial performance in the first half of the financial year and the new Medium Term financial forecast be noted (Sections 4 and 6).
- 13.2 That the changes to the Medium Term financial forecast outlined in Section 4 and Section 6 be approved.
- 13.3 That the proposed use of reserves as set out in Section 5 of the report be agreed and the new applications for funding as set out in para. 5.2 be approved.
- 13.4 That the updated capital programme outlined in Section 7 be noted.
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- 13.8 That the planned approach to budget consultation be considered (para. 9.3).

14 Reasons for recommendations

- 14.1 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	895
Wards affected	All
Links to Council Plan priorities	To become financially self-sufficient

Document information

Report author	Contact number/email
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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 2019-20 Capital Programme