

For publication

**General Fund Budget Monitoring and Medium Term
Forecast Update**

Meeting: Overview and Performance Scrutiny Forum

Date: 21 November, 2019

Cabinet portfolio: Deputy Leader

Report by: Deputy Chief Accountant

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Purpose of reviewing the topic	To report on the 2019/20 quarter 2 budget monitoring position and the medium term forecast of the council's general fund budget.
What are the objectives of the review?	<ul style="list-style-type: none">• To understand the current position of the council's budget.• To understand the medium-term financial forecast for the council's budget.
Progress to date	Previous update was brought to the Overview and Performance and Scrutiny Forum on the 4 th July 2019.

1.0 Background

1.1 The Council approved the original budget for 2019/20 on 27th February 2019.

- 1.2 The original budget for 2019/20 was established forecasting a deficit of £202k.
- 1.3 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.
- 1.4 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.
- 2.0 **Current Year's Budget**
- 2.1 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)

2.2 Changes to the approved budgets

- 2.2.1 Vacant posts in both Spirepride and Building Cleaning will cumulatively deliver non-recurring savings of £110k in 2019/20.
- 2.2.2 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.
- 2.2.3 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.
- 2.2.4 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.
- 2.2.5 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.
- 2.2.6 ICT savings delivery – the savings target for 2019/20 is £227k. At quarter 2, £207k of this saving has been achieved.

3.0 Medium Term Outlook

- 3.1 The latest medium-term financial forecast indicates an improved position in 2020/21 and future years.
- 3.2 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

4.0 Barriers/obstacles

- 4.1 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

5.0 **Future plans**

- 5.1 The budget preparation process started in September when budget working papers and guidelines were issued to budget holders.
- 5.2 The draft budget and medium-term forecasts will be reported to Cabinet on the 17th December 2019.
- 5.3 The final budget and medium-term forecasts will be report to Cabinet on the 25th February 2020 and Council on the 26th February 2020.

6.0 **Conclusion**

- 6.1 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.

6.2 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.

6.3 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).

7.0 **Suggested scrutiny activity**

7.1 Continue with bi-annual updates to Overview and Performance Scrutiny Forum.

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	N/A