

**FOR PUBLICATION**

**AGENDA ITEM**

**BUDGET MONITORING AND UPDATED MEDIUM TERM FINANCIAL FORECAST – J000**

MEETING: COUNCIL  
DATE: 15<sup>TH</sup> OCTOBER 2014  
REPORT BY: HEAD OF FINANCE  
WARD: ALL  
COMMUNITY FORUM: ALL  
KEY DECISION REF: 433

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FOR PUBLICATION

BACKGROUND PAPERS FOR PUBLIC REPORTS:

TITLE: Working Papers LOCATION: Accountancy

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**1.0 PURPOSE OF REPORT**

- 1.1 To report budget variances in the current financial year and agree the actions for tackling the forecast deficit.
- 1.2 To highlight potential future budget issues, update the medium term financial forecast and consider the deficit reduction strategy.

**2.0 RECOMMENDATIONS**

- 2.1 That the budget monitoring report for the four months to the end of July be considered (Section 4).
- 2.2 That the previously approved use of reserves as set out in Section 6 of the report be reviewed.
- 2.3 That the updated medium term forecast, risks and savings targets be considered (Section 7).
- 2.4 That the budget preparation guidelines in para 8.1 be approved.
- 2.5 That the approach to budget consultation be considered (paras. 8.3 and 8.4).
- 2.6 That the proposed short and medium term actions to address the forecast budget deficits are supported (para. 11.4).

### 3.0 BACKGROUND

- 3.1 The Council approved the original budget for 2014/15 on 27<sup>th</sup> February 2014. The Band 'D' Council Tax was frozen at £144.89. After allowing for planned savings of £824k, there was a forecast net budget surplus of £244k.
- 3.2 All of the indications are that the medium term outlook will continue to be challenging. A provisional Government Grant allocation for 2015/16 was released as part of the 2014/15 settlement process but there was no indication about subsequent years. The Medium Term forecast approved by the Full Council on 27<sup>th</sup> February 2014 showed a deficit of £1.2m in 2015/16 rising to £2.0m in 2016/17 before the savings targets are taken into account. The savings assumed in the budget were £1.7m in both 2015/16 and 2016/17, leaving a net surplus in 2015/16 of £0.5m and a deficit in 2016/17 of £0.3m.
- 3.3 The Medium Term Financial Plan (MTFP) is regularly updated to include unavoidable budget variances and will be adjusted to reflect any new priorities agreed through the Corporate Planning process.
- 3.4 The report was considered at the meeting of Cabinet on 9 September 2014 and it was resolved that the recommendations be supported. [Cabinet Minute No. 77]

### 4.0 CURRENT YEARS BUDGET

- 4.1 We started the year with a forecast surplus of £244k after allowing for £824k of savings. The latest forecast, after just four months into the financial year, shows that the originally forecast surplus of **£244k** has now changed to a deficit of **£301k**. A summary of the variances is included in Appendix 1 and a commentary on the most significant items is provided below.
- 4.2 **Income Variances**— income from fees, charges, rents etc. form an important part of the Council's budget. Already a number of significant variances are starting to emerge, including:
- Car Parking income – the latest revised forecast indicates a shortfall of £100k on the original budget of £2.4m. Whilst surface car parks are performing in line with the budget target, income from the multi-storey car parks, particularly Saltergate, is down.
  - Property market related income sources such as Planning, Building Control and Land Charges are performing well. All are

likely to exceed their budget target for the year, with Planning forecast to deliver an additional £78k.

- Rent income from industrial and commercial properties is forecast to be down by £42k due to disposal and re-letting units with rent concessions. There is, however, a one-off income related to the former ABC Cinema of £45k to offset the loss in 2014/15.
- Corrections have been made to the original budget forecasts of income from Licences and the Spire Pride surplus, reducing the amounts by £43k and £46k respectively.

#### 4.3 **Expenditure Variances**

- The Council has recently been notified of an increase in the pension costs of staff transferred under the PPP contract. Pension costs are treated as a 'pass through' cost in the contract which means that the actual cost is passed back to the Council. The increase is approximately £250k and will apply for at least 3 years, until the next fund revaluation. Officers are exploring with the County Council if there is another way of dealing with these costs, for example could they be transferred back into the Council's element of the Fund in order to allow the cost increases to be spread over a longer period.
- A fee was incurred when the original design plans for Queens Park Sports Centre were submitted for planning approval. With the opportunity to extend the scheme using Sport England grant funding, a second set of designs had to be submitted for approval. Capital accounting regulations allow only one set of fees to be capitalised. Therefore one set of fees will have to be written-off as revenue expenditure (£50k).

4.4 **Savings Targets** – the approved budget included a number of savings proposals, totalling just over £1m but with a £0.2m (20%) allowance for non-achievement. Included within the total are a small number of high value items. A review of the savings targets was recently undertaken by the Corporate Management Team and a number of significant variances have emerged, as follows:

- Renegotiation of external contracts (PPP) – the target for 2014/15 was £170k. A number of opportunities continue to be explored with arvato with a view to securing additional economies through the PPP. The scope to transfer further services with the PPP has largely been eroded as a consequence of the significant savings already achieved through the in-house restructuring of the Council's support services

function. Commercial negotiations are, however, advancing with regards to the financial benefits and risks of adjusting Kpi measures and targets from those originally set in 2010 and also with regards to agreeing a model with arvato to share the costs and economies associated with the application of new customer demand management practices. A report covering these commercial negotiations is currently in preparation, which will include a revised savings position as measured against the targets originally set for 2014/15 and future financial years.

- Review of Terms & Conditions – a target of £100k for 2014/15 but again it must be assumed at this point that given the time it takes to implement such changes that little if anything will be achieved in this financial year. The Chief Executive has recently joined the group tasked with delivering this project in order to build momentum with the development of an ‘employer offer’ to Council staff and the trade unions. A first draft of this document should be available mid to late September.
- Voluntary Redundancy/Early Retirement – there is a target saving of £250k in the current year. A moderate number of applications have been received from Council staff. These are currently being considered and final decisions will be made in September. The saving has, therefore, been reduced to £100k in the updated budget forecast.
- With the ‘big ticket’ items above being removed or significantly reduced in the updated forecast, it follows that the provision for non-achievement (£206k) should also be reduced as it is effectively a provision against these high risk items.
- Great Place: Great Service – the original budget included a net budget saving of £13k in 2014/15. The updated forecast indicates an increased net saving of £44k. This is due mainly to:
  - Successful business rate appeals (£125k, two thirds of which relates to back-dating and is, therefore, a one-off gain); plus
  - Depot cost savings (£31k);
  - Less:
  - A net increase in project management costs after a contribution of (£46k) from the HRA; and
  - The removal of non-cash savings included in the original budget (£78k).

4.5 The updated deficit forecast must be reduced in the remaining months of the financial year to avoid or minimise any call on reserves to make up any 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 greater than those for 2014/15. The proposed actions are included in the 'Conclusions' section below.

## **5.0 GENERAL FUND CAPITAL PROGRAMME**

- 5.1 Capital Receipts - To date, capital receipts of £821k have been received. The original forecast for the year was £4.1m but this has been revised up to £4.7m. The revised forecast does, however, assume that receipts from the Newbold School and Ashgate Road sites will be received during the year.
- 5.2 General Fund Capital Spend –the approved budget for 2014/15 is £10m plus slippage from last year of £0.5m. Spend of £1m had been incurred to the end of July. The main variances are:

Disabled Facilities Grants – Against a budget of £733k, only £112k has been spent but the rest of the budget is committed. There is a requirement to spend £530k by the end of this year to prevent claw-back of funding by Central Government. The Council's Home Improvement Service Team continues to work closely with staff at Derbyshire County Council to identify where improvements to procedures can be made to decrease the length of time taken on projects.

Decent Homes - £79k of £184k has been spent but the full budget has been committed.

Housing Renovation Grants - £15k of the £275k budget has been spent. This funding will be used once the Decent Homes Grant funding has been fully utilised.

QPSC – Planning approval for the extended scheme has been achieved, Sport England funding confirmed and the build contract signed. Work will begin on the site on the 10<sup>th</sup> September.

Venues refurbishment – £373k spent to date from a total budget of £706k. The Winding Wheel improvements are complete and work is in progress at the Pomegranate Theatre.

Flood resilience – These schemes are grant funded by the Environment Agency. The scheme at Brampton is currently underspent by £347k but this will be spent during the remainder of

the year. Hollis Lane is underspent by £178k but the project is being redesigned due to a reduced number of properties wanting to be included, this also means that some grant funding has had to be repaid. The budget figure will be amended when the Capital Programme is next updated.

Town Hall GP:GS – currently underspent by £580k but will be spent as the project progresses.

- 5.3 A more comprehensive report on the Capital Programme will be produced after the second quarter. Bids for new schemes to be included in the Programme will be considered as part of the budget setting process later in the year.

## **6.0 RESERVES**

- 6.1 In addition to the General Working Balance, which is maintained at £1.75m, 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 opening balance in the reserve at the start of this financial year was £1,000k but this reduces to £730k after allowing for existing commitments. There will be other commitments to include as decisions on the current VR/VER applications are determined.

<b>Table – Budget Risk Reserve</b>		
	<b>Updated Forecast £'000</b>	
<b>Balance b/fwd 1<sup>st</sup> Apr 2014</b>	<b>1,000</b>	
<u>Less Approved Commitments:</u>		
STWA tenants consultation exercise	<b>(30)</b>	
Land Charges claims	<b>(44)</b>	
Learning & Development - training	<b>(32)</b>	
Governance restructure severance costs	<b>(30)</b>	
2013/14 carry forward requests (para 6.6 below)	<b>(36)</b>	
CMT restructure – severance costs	<b>(98)</b>	
<b>Uncommitted Balance</b>	<b>730</b>	

6.3 **Invest to Save Reserve** – The table below shows the opening balance in the reserve as at 1<sup>st</sup> April 2014 and the currently approved or anticipated movements on the reserve:

<b>Table - Invest-to Save Reserve</b>		
	<b>Updated Forecast £'000</b>	
<b>Balance b/fwd 1st Apr 2014</b>	<b>393</b>	
<u>Less Approved Commitments:</u>		
Venues refurbishment	<b>(90)</b>	
Holmebrook Valley Park drainage	<b>(21)</b>	
Community Infrastructure Levy	<b>(5)</b>	
Customer Service Strategy - capital	<b>(105)</b>	
Local Collective Agreement	<b>(10)</b>	
Car park improvements	<b>(111)</b>	
CMT re-structure – external advice	<b>(25)</b>	
Repayments into the fund	<b>-</b>	
Venues – central booking office	<b>(23)</b>	
<b>Uncommitted Balance c/fwd</b>	<b>3</b>	

The reserve is therefore almost fully committed so any future bids will have to be funded from one of the other usable reserves.

- 6.4 **Service Improvement Reserve** – The table below shows the opening balance in the reserve at 1<sup>st</sup> April 2014 and the currently approved or anticipated movements on the reserve:

<b>Table - Service Improvement Reserve</b>		
	<b>Updated Forecast £'000</b>	
<b>Balance b/fwd 1<sup>st</sup> Apr 2014</b>	<b>1,176</b>	
<b>Less Approved Commitments:</b>		
Project Academy (balance)	<b>(6)</b>	
Grit storage facility	<b>(5)</b>	
Venues refurbishment	<b>(20)</b>	
Car parking improvements	<b>(15)</b>	
Project Academy	<b>(60)</b>	
Linacre Master Planning	<b>(67)</b>	
Waterside – legal costs	<b>(40)</b>	
<b>Uncommitted Balance</b>	<b>963</b>	

- 6.5 Given the pressure on the Council's budgets and the need to maintain reserves for investment in future transformation projects the Cabinet should continually review the commitments against the three major reserves above.
- 6.6 **Carry Forward Requests** - included within the commitments above are the carry forward requests from 2013/14.

<b>Table 2 – Carry Forward Requests</b>				
<b>Portfolio</b>	<b>Service</b>	<b>Description</b>	<b>Amount</b>	<b>From</b>
Dep Leader	Commu Infra Levy	Consultants' fees re scheme set-up.	5,100	<b>In-to-Save Reserve (£5k)</b>
Environment	Bereavement	Boythorpe Cemetery Baby Garden Project.	5,000	<b>Budget Risk Reserve (£36k)</b>
	Parks	Path re-surfacing works for which there is no budget in 2014/15.	23,500	
Leisure	QP Sports Centre	Replacement uniforms delayed pending re-branding.	4,000	
	Staveley HLC		3,000	
<b>Total</b>			<b>£40,600</b>	

- 6.7 The General Working Balance was increased from £1.5m to £1.75m at the end of 2012/13 to reflect the financial risks which transferred



to the Council as a result of the localisation of business rates and council tax support. The risks and amounts retained in this and all other reserves are reviewed each year as part of the budget setting process.

## 7.0 MEDIUM TERM OUTLOOK

7.1 A more comprehensive medium term update will be provided in the next budget report at the half year stage. However, it is evident that many of the issues identified as budget variances in the first four months of 2014/15 are likely to continue into future years. The most significant variances include the failure to achieve the PPP budget savings target of £250k and the potential PPP pension cost increase of £250k. In 2015/16 there could also be a share of the Business Rates Account deficit from 2013/14 to clear but this will be subject to what happens during 2014/15. The latest forecast, therefore, indicates a rapidly deteriorating position with significant deficits now emerging in all years. The table below compares the latest forecast with the original budget forecast approved in February:

<b>Forecast (Surplus) / Deficit</b>			
	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>
<b>Latest Forecast</b>	<b>301</b>	<b>471</b>	<b>852</b>
February 2014	(244)	(450)	279
Change	545	921	573

7.2 The revised forecast for future years assumes that the other high value savings targets will be achieved, including £200k from a review of staff terms and conditions and £500k from voluntary redundancies/early retirements, which at this point in time must still carry a fair degree of risk.

7.3 Local Council Tax Support Scheme for 2015/16 - Officers are not recommending any changes to the scheme at this stage but a fuller report will be prepared for the Cabinet to consider in October. This will enable consultation to take place with the other major precepting authorities before the scheme is formally approved by the full Council in December.

## **8.0 2015/16 BUDGET PREPARATION PROCESS**

8.1 The budget preparation process starts in September when budget working papers and guidelines are issued to budget holders. The budgets will be 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% in future years.
- Energy and property maintenance inflation as advised by the Facilities Maintenance Manager.
- Contract inflation as specified within contracts – assuming RPI of 3.0% and CPI of 2.0% in future years.
- Business rates are based on the RPI in the previous September – a rate of 3% for 2015/16 and 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.

8.2 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 2015/16 to the full Council in December.
- c) Monthly Political Cabinet/Corporate Management Team budget priority setting workshops arranged from September through February;
- d) Executive Member portfolio budget reports will be produced for consideration in early December.
- e) The Cabinet will consider the first draft budget in mid-December and the final budget report in February.
- f) The full Council will approve the final budget and council tax at the end of February 2015.

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

- 8.3 Consultation with the public – over recent years this has taken the form of two meetings with representatives from the Community Forums/Assemblies. The first meeting has been in December where the background information has been supplied and the attendees given a number of issues/options to consider for more in depth discussion at the second meeting in January.
- 8.4 In light of the poor attendance at these meetings, especially in December 2013 and January 2014, an alternative approach is actively under consideration where future public consultation on the budget setting process would take place at the November meeting round of the Council's 4 Community Assemblies.

## **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 process.

## **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 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 2015/16 in February 2015.

## **11.0 CONCLUSIONS**

- 11.1 It is not unusual for a pessimistic budget forecast to be produced at this early stage in the financial year only for a surplus to be achieved by the end of the year. Nevertheless, these early warning signs must be taken seriously and appropriate action taken. We know from past experience that the Council has a good track record

of tackling such issues but inevitably this becomes progressively more difficult each time.

- 11.2 Budget monitoring for the first four months of the current financial year has highlighted a number of cost pressures, particularly the car parking income shortfall and the PPP pension cost issue. The other major concern is the rate of progress on implementing the budget savings targets assumed within the original budget, particularly the high value items. Whilst a budget deficit of £300k in the current financial year could be funded from reserves the problem is that this would only provide a short term solution; the priority must be to reduce the underlying deficit.
- 11.3 The era of cuts in public spending is likely to continue for some time to come. In order to achieve a sustainable and affordable budget over the longer term the Council will have to continue to develop and implement some significant budget reductions. Some fundamental changes will be required to the range and quality of the services provided.
- 11.4 Members can be assured that officers are already responding to the issues raised in this report. The actions currently being taken to address the deficit forecasts include:
- Giving priority to achieving the current budget savings targets, including the GP:GS programme;
  - Strict vacancy control;
  - Controls on non-essential expenditure and tight budget control;
  - A stronger focus on income generation;
  - Continuing to place a strong emphasis on the growth of Chesterfield's economy to support delivery of new income through the new homes bonus and business rate retention schemes;
  - Developing new savings proposals to supplement or replace the current list;
  - Continuing the Budget Worksop sessions with the Political Cabinet and Corporate Management Team to further develop and monitor the actions above.
- 11.5 Delivering the required budget savings has to be the number one corporate priority. We cannot rely on under spends at the year-end to rescue the position and must do all we can to avoid having to use reserves to support the budget.

## **12.0 RECOMMENDATIONS**

- 12.1 That the budget monitoring report for the four months to the end of July be considered (Section 4).
- 12.2 That the previously approved use of reserves as set out in Section 6 of the report be reviewed.
- 12.3 That the updated medium term forecasts be considered (Section 7).
- 12.4 That the budget preparation guidelines in para 8.1 be approved.
- 12.5 That the approach to budget consultation be considered (paras. 8.3 and 8.4).
- 12.6 That the proposed short and medium term actions to address the forecast budget deficits are supported (para. 11.4).

## **13.0 REASON FOR RECOMMENDATIONS**

- 13.1 To monitor the Council's finances.

**BARRY DAWSON,  
HEAD OF FINANCE**

Officer recommendation supported/not supported/modified as below or Lead Member's recommendation/comments if no officer recommendation.

Signed

Lead Member

Date

Consultee Lead Member/Support Member comments  
(if applicable)/declaration of interests

You can get more information about this report from Barry Dawson Ext 5451.

<b>SUMMARY OF BUDGET VARIANCES</b>		
<b>as at the end of July 2014</b>		
	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<u>Income from fees &amp; charges etc:</u>		
Car parking income shortfall	100	
One-off receipt ABC Cinema	(45)	
Industrial & Commercial rent income	42	39
Licence fee income – correction to base	43	43
Reduced Spire Pride surplus	46	31
Planning fees	(78)	
HIA grant stopped from 1/4/14	19	20
Reduced Housing Benefit Admin grant		23
Cemeteries income shortfall	15	15
QPSC/HLC income	(55)	(55)
<u>Expenditure:</u>		
PPP pension costs	250	250
CMT restructure	(93)	(119)
Leisure Legacy	50	
DCC contribution to Amenity Maintenance	(17)	
Communications/marketing savings not achieved	21	21
Energy costs – recurring overspend (net)	8	8
Contribution to QPSC running costs		120
Provision for Bus Rate deficit from 13/14		204
<u>Adjustments to savings targets:</u>		
Review of staff terms & conditions	100	
VR/VER Savings	150	
Renegotiation of PPP contract	170	200
GP:GS savings	(31)	55
Removal of provision for non-achievement	(206)	
Other (net)	56	66
<b>Total Variance</b>	<b>545</b>	<b>921</b>