

FOR PUBLICATION

GENERAL FUND REVENUE AND CAPITAL BUDGET MONITORING AND UPDATED MEDIUM TERM FINANCIAL FORECAST – J000

MEETING: COUNCIL
DATE: 17 DECEMBER 2014
REPORT BY: CHIEF FINANCE OFFICER
WARD: ALL
COMMUNITY FORUM: ALL
KEY DECISION REF: 454

FOR PUBLICATION

BACKGROUND PAPERS FOR PUBLIC REPORTS:

TITLE: Working Papers LOCATION: Accountancy

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 variances and updated budget forecasts be considered (Sections 4 and 5).
- 2.2 That the previously approved use of reserves as set out in Section 6 of the report be noted.

3.0 BACKGROUND

- 3.1 The Council approved the original budget for 2014/15 on 27th 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 27th 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 last budget monitoring report, covering the first fourth months of the year, was considered by the full Council on the 15th October. That report showed that the original forecast surplus of £244k has changed to a deficit of £301k due in the main to:
- A potential shortfall in car parking income of £100k;
 - An increase in the PPP pension costs of £250k;
 - Failure to deliver on some of the 'big ticket' savings targets such as PPP renegotiation, review of terms and conditions and voluntary redundancy savings, £200k.
- 3.5 This report and its recommendations will be considered at Cabinet at its meeting on 16 December, 2014.

4.0 UPDATED BUDGET FORECASTS

- 4.1 The table below provides a comparison of the surplus/deficit forecasts at the various stages as we have moved through the budget cycle:

Forecast (Surplus) / Deficit

| | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 |
|---------------------------|------------------|------------------|------------------|
| Original – Feb '14 | (244) | (450) | 279 |
| Updated – July '14 | 301 | 471 | 852 |
| Latest – Sept '14 | (9) | (350) | 104 |
| Change – original to July | 545 | 921 | 573 |
| Change – July to Sept | (310) | (821) | (748) |
| Change – Original to Sept | 235 | 100 | (175) |

The table illustrates the fact that the budget position is volatile, with significant variances being reported at each stage.

Details of the variances in each of the financial years are provided below.

4.2 **Current Year, 2014/15** - The most significant changes since the report to the end of July include:

2014/15 Q2 Budget Variances

| | | Over /(under) £'000 |
|----------------------------|---|------------------------------------|
| Engineers | Reduced provision for non-core work | (40) |
| Property Rents | Industrial & commercial – down by a further £30k on the £42k in Q1. Town Centre – down by £18k Vicar Lane – down by a further £1k on the £25k reported in Q1. | 49 |
| Car Parking Income | The position has improved since the last report, with the shortfall being reduced from £100k to £49k on a budget of £2.4m. | (51) |
| Car Parks – expenditure | Rates, etc | (40) |
| Sport Centres | | |
| | Income above target | (29) |
| Museum | Staffing | 28 |
| Car Allowances | Removal of savings target – now reflected in service budgets. | 40 |
| Grants | New Burdens grants – Right to Challenge & Assets of Community Value | (33) |
| VR/VER saving | Reduction to target – to £50k | 50 |
| PPP Pensions | It now appears that there may be a way of reducing or eliminating the £250k PPP pension cost increase that was included in the last report. Formal confirmation of how this will work is still awaited from the Actuary to the Derbyshire Pension Fund. | (250) |
| Net of all other variances | | (34) |
| Total | Changes in Quarter 2 | (310) |
| Add to | Quarter 1 Deficit brought forward | 301 |
| Equals | Updated Deficit Forecast after Q2 | (9) |

The variances in the table above, together with those from the first reporting period, produce an updated forecast of a **£9k surplus** for the year. The first six months has produced a number of variances and, due to the scale and diversity of the Council's activities, there will almost inevitably be other variances in the second half of the year.

It is important to maintain a surplus position during the remaining months of the financial year in order to avoid or minimise any call on reserves to make up a 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.

- 4.3 **Medium Term** – the table below provides details of the variances identified since the last budget monitoring report and shows the revised surplus/deficit forecast for each year:

Future Years' Budget Variances Identified in Quarter 2

| | | Over /(under) £'000 | |
|-------------------------------|---|------------------------|---------|
| | | 2015/16 | 2016/17 |
| Engineers | Reduced provision for non-core work | (40) | (40) |
| Industrial & Commercial Rents | Assuming currently vacant properties are re-let. | (78) | (78) |
| Town Centre Properties | Saltergate & Knifesmithgate – voids and potential disposals. | 21 | 30 |
| Innovation Centres | Council's share of increased surplus | - | (38) |
| Env Services | Env Health and waste collection | - | 44 |
| Waste Collection | Re-instate wheelie bin replacement fund contribution | - | 61 |
| | | | |
| Sport Centres | Other expenditure & income | 84 | (28) |
| Venues | Savings above the £110k target. | (94) | (92) |
| Benefits | Cuts in the Admin Subsidy not as severe as originally forecast | (51) | (125) |
| Car Allowances | Removal of savings target – now reflected in service budgets. | 40 | 40 |
| New Homes Bonus | Estimated reduction in 15/16 only on the amount included in the base. | 50 | - |

| | | | |
|----------------------------|---|--------------|--------------|
| Retained Business Rates | Anticipated increase due to 'Pooling' | (260) | (260) |
| Grants | Estimated Efficiency Support Grant in 15/16 – not yet confirmed. | (232) | - |
| PPP Pensions | It now appears that there may be a way of reducing or eliminating the £250k PPP pension cost increase that was included in the last report. Formal confirmation of how this will work is still awaited from the Actuary to the Derbyshire Pension Fund. | (250) | (250) |
| Net of all other variances | | (11) | (12) |
| Total | Changes in Quarter 2 | (821) | (748) |
| Add to | Quarter 1 Deficit brought forward | 471 | 852 |
| Equals | Updated Forecast after Qtr 2 | (350) | 104 |

It is important to also remember that the revised forecasts for future years assume that the savings targets will be achieved; including £200k from a review of staff terms and conditions, £500k from voluntary redundancies/early retirements and £300k from GP:GS. Achieving the savings targets will be a challenge.

- 4.4 A full revision of the current year's and medium term budgets will be presented to the Cabinet in mid-December.

5.0 GENERAL FUND CAPITAL PROGRAMME

- 5.1 Capital Receipts - To date, capital receipts of £803k have been received. The original forecast for the year was £4.1m but this has been revised down to just £1.3m. The revised forecast reflects the fact that the Newbold School and the Ashgate Road sites have been moved into 2015/16.
- 5.2 General Fund Capital Spend –the original approved budget for 2014/15 was £10m. The updated Programme shows planned expenditure of £8.5m in 2014/15, including slippage from last year of £0.5m. Expenditure as at the end of September was only £1.5m. The main variances include:

Disabled Facilities Grants – Against a budget of £733k, only £164k 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.

Decent Homes – the original budget of £184k has been reduced to £136k to allow for slippage from 2013/14. By the end of September £115k of £136k revised budget was spent.

Housing Renovation Grants - £18k 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 began on the site on the 10th September. The first contract payment was made in early October.

Venues refurbishment – £510k spent to date from a total budget of £706k. All improvements are complete.

Flood resilience – These schemes are grant funded by the Environment Agency. The scheme at Brampton is currently underspent by £320k but this will be spent during the remainder of the year. As previously reported, the budget for Hollis Lane has been reduced from £195k to £27k to reflect a reduced number of properties to be included the scheme.

Town Hall GP:GS – there was no expenditure against the original allocation of £290k in 2014/15 and the budget will be rephrased to leave just £50k in 2014/15 and carry forward the unused balance to 2015/16.

Major Property Repairs - the £200k budget for has not been used.

New Schemes - a number of fully funded schemes have been added to the Capital Programme, including:

- Inkersall Green Road Play Area £40k, Section 106 funding
- Staveley King George V Bowls Pavilion £50k, Sport England
- Inkerman Park footpath £31k, Landfill Credit and S106
- Whitebank Close Sports Ground £33k, Section 106 funding

5.3 The original Capital Programme for 2014/15 showed a surplus of £1.25m. The updated forecast has been adjusted to reflect the delay in securing some of the key capital receipts and to allow for

slippage both from 2013/14 and into 2015/16 to produce a balanced budget position.

- 5.4 A more comprehensive report on the updated Capital Programme and growth bids will be produced and considered as part of the budget setting process.

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 £677k after allowing for existing commitments. There will be other commitments to include as decisions on the current VR/VER applications are determined.

| Table – Budget Risk Reserve | | |
|--|-----------------------------------|--|
| | Updated Forecast £'000 | |
| Balance b/fwd 1st Apr 2014 | 1,000 | |
| <u>Less Approved Commitments:</u> | | |
| STWA tenants consultation exercise | (30) | |
| Land Charges claims | (44) | |
| Learning & Development - training | (32) | |
| Governance restructure severance costs | (30) | |
| 2013/14 carry forward requests | (36) | |
| CMT restructure – severance costs | (68) | |
| VR/VER's approved to date | (53) | |
| Uncommitted Balance | 677 | |

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

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

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 1st April 2014 and the currently approved or anticipated movements on the reserve:

| Table - Service Improvement Reserve | | |
|--|-----------------------------------|--|
| | Updated Forecast £'000 | |
| Balance b/fwd 1st Apr 2014 | 1,176 | |
| <u>Less Approved Commitments:</u> | | |
| Project Academy (balance) | (6) | |
| Grit storage facility | (5) | |
| Venues refurbishment | (20) | |
| Car parking improvements | (15) | |
| Project Academy | (60) | |
| Linacre Master Planning | (67) | |
| Waterside – legal costs | (40) | |
| TPIC/DIC telephony system | (204) | |
| Uncommitted Balance | 759 | |

6.5 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 2015/16 BUDGET PREPARATION PROCESS

7.1 The budget preparation process started in September when budget working papers were issued to budget holders. The budget preparation guidelines were approved in the October budget monitoring report. The previous Pay Award assumption of 1% per annum in both 2014/15 and 2015/16 will have to be revised to reflect the recently announced national pay settlement.

7.2 The remaining timetable for reports to Members is:

- a) Approval of the Localised Council Tax Support Scheme for 2015/16 to the full Council in December.
- b) Monthly Political Cabinet/Corporate Management Team budget priority setting workshops arranged from September through to February;
- 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 2015.

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

7.3 The public were consulted on the Budget and Council Tax for 2015/16 at the four Community Assembly meetings during November. Details on the outcome of the consultation meetings will be included in the draft budgets report.

8.0 RISK MANAGEMENT

8.1 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. The most significant budget risks continue to be:

- Uncertainty about the scale of Government funding cuts over the medium term;
- Estimating the income due to the Council through the Business Rates Retention Scheme due to the impact of back-dated appeals, growth and Pooling.
- Delivering the planned budget savings targets.
- Medium term issues include the retendering of the Waste Collection Service (increased price) and the changes to the Benefits Service when Universal Credit is fully implemented (staff redundancies or TUPE transfers).

A full budget risk assessment will be included in the budget setting reports later in the process.

9.0 LEGAL CONSIDERATIONS

9.1 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.

10.0 CONCLUSIONS

10.1 The budget outlook has improved significantly since the previous budget monitoring report. Since the first report, it appears that the car parking income and the PPP pensions issues have reduced significantly. A number of new risks and opportunities have also emerged in recent months including Business Rates Pooling, Efficiency Support Grant, etc. Many of the changes, however, are still not certain and carry a degree of risk. Many of these issues should, however, get resolved over the next few weeks as

Government announcements are made and as we work through the budget setting process.

- 10.2 The budget savings targets for 2014/15 have been reduced significantly but some challenging targets remain in future years. The era of cuts in public spending is likely to continue for some time to come and the indications are that the scale of the cuts in the second half of the Government's Austerity Programme is likely to be tougher than in the first half. In order to achieve a sustainable and affordable budget over the longer term the Council will have to focus on delivering the planned budget savings and to continue to develop new proposals in case the outlook worsens or if the planned savings are not deliverable. Some fundamental changes may be required to the range and quality of the services provided. We know from past experience that the Council has a good track record of tackling such issues but inevitably this becomes progressively more difficult to achieve.
- 10.3 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.

11.0 RECOMMENDATIONS

- 11.1 That the budget monitoring variances and updated budget forecasts be considered (Sections 4 and 5).
- 11.2 That the previously approved use of reserves as set out in Section 6 of the report be noted.

12.0 REASON FOR RECOMMENDATIONS

- 12.1 To monitor the Council's finances.

**BARRY DAWSON,
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