FOR PUBLICATION

BUDGET MONITORING AND UPDATED MEDIUM TERM FINANCIAL FORECAST – J000

MEETING:	(1)	COUNCIL
	(2)	CABINET
	(3)	DEPUTY LEADER IN CONSULTATION WITH THE LEADER
DATE:	(1)	14 OCTOBER 2015
	(2)	22 SEPTEMBER 2015
	(3)	14 SEPTEMBER 2015
REPORT BY:	CHIEF FINANCE OFFICER	
WARD:	ALL	
COMMUNITY ASSEMBLY:	ALL	
KEY DECISION REF:	545	

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 report for the four months to the end of July be considered (Section 4).

2.2 That short term prudential borrowing be approved in principle at this stage to cover any capital funding deficit caused by the delays in generating capital receipts. (para. 5.4).

2.3 That the proposed use of reserves as set out in Section 6 of the report be reviewed and confirmed.

2.4 That the updated medium term forecast, risks and savings targets be considered (Section 7).

2.5 That the budget preparation guidelines in para. 8.1 be approved.

2.6 That the approach to budget consultation be considered (para. 8.3).

2.7 That the proposed short and medium term actions to address the forecast revenue budget deficits are supported (para. 11.4).

3.0 BACKGROUND

3.1 The Council approved the original budget for 2015/16 on 26 February 2015. The Band 'D' Council Tax was frozen at £144.89. After allowing for planned savings of £586k, there was a forecast net budget deficit of £94k. Importantly, this position was only achieved after assuming that all the New Homes Bonus allocation (£616k) and the whole of the estimated gain from Business Rates Pooling (£404k) are used to support the budget.

3.2 All of the indications are that the medium term outlook will continue to be challenging. Provisional Government Grant allocations beyond 2015/16 were not announced as part of the 2015/16 settlement. Any announcement for 2016/17 and future years will follow the release of the 2015 Spending Review on 25 November 2015. The Medium Term forecast approved by the Full Council on 26 February 2015 showed deficits, before the savings targets are taken into account, of £1.4m in 2015/16 rising to £2.5m by 2019/20.

4.0 CURRENT YEAR'S BUDGET

4.1 We started the year with a forecast deficit of £94k after allowing for £586k of savings. The latest forecast, after just four months into the financial year, shows that the originally forecast deficit has now increased to a deficit of **£490k**. A summary of the key variances is provided in the table below:

2015/16 UPDATED BUDGET DEFICIT FORECAST		
Deficit Forecast at the start of the year		94
Budget Saving - increased income:		
Sports Centres	(90)	
Venues	(99)	
Planning (net of additional staffing costs)	(60)	
Reinstate THI grant written off in 2014/15	(70)	
Recovery of dangerous building costs	(24)	(343)
Budget Saving - reduced expenditure:		
Energy budgets (Sports Centres, Venues, Parks, Market Hall, Community Rooms)	(103)	
External Audit Fee	(20)	
Vacancy savings above profiled allowance	(46)	
Car Parking & CCTV merger	(20)	(189)
Budget Increase - reduced income:		
Property Rents	94	
SpirePride surplus	28	
Open Market	20	
Market Hall	20	162
Budget Increase - increased expenditure:		
Card payment transaction costs	64	
Back-dated income system maintenance costs	37	101
Adjustments to savings Targets:		
Reversal of original budget	586	
GPGS Team - previously to be met from savings	106	692
Net of all other variances		(27)
Updated Deficit Forecast		**490**

4.2 The revised forecast does not allow for any costs associated with the implementation of the Living Wage for staff in 2015/16. It has been estimated that this will add £70k to the Council's annual pay bill but it is not clear at this point in time how much of this relates to General Fund staff. The impact in 2015/16 will also be affected by the date of implementation, a date which is yet to be agreed.

4.3 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 residual 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 challenging and far greater than those for 2015/16. 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 £256k have been received. The original forecast for the year was £5.6m but this has been revised down to just £2.9m. The reduction of £2.7m is due mainly to:

- £1.5m relating to the Hollythorpe Close and the former Fire Station sites being moved into 2016/17; due respectively to requiring a Local Plan allocation and awaiting progress on the Northern Gateway development.
- £0.5m reduction in the forecast receipt from the Newbold School land sale following the receipt of tender bids;
- £0.3m in respect of the cancellation of two planned disposals which were originally intended to help finance the acquisition of the North East Derbyshire District Council (NEDDC) Council Offices. The acquisition has fallen through so the properties are now being retained for their rental potential.
- £0.3m from the planned sale of surplus land following the NEDDC Offices site acquisition.

The revised forecast of £2.9m, however, assumes that a number of significant disposals, including land at Newbold School, Whitebank, Gorse Valley and Ashgate Road, will still take place before the end of the financial year.

5.2 General Fund Capital Spend –the original capital budget for 2015/16 was £14.7m. Slippage from 2014/15 will increase this slightly. There are no significant variances to report at this stage other than the removal of the £1.7m budget for the NEDDC Council Offices acquisition. The total of the revised programme is £12.6m.

5.3 Net Capital Financing – the original budget showed a surplus of £1.2m. Adjusting for the removal of the NEDDC Offices expenditure and financing and the other capital receipt reductions identified above, the revised net position is a funding deficit of £0.9m which could increase to £3.8m if the £2.9m of capital receipts referred to in paragraph 5.1 are not received in this financial year.

5.4 Financing the forecast deficit - there is limited scope for reducing this deficit by either:

a) Generating further capital receipts or

b) Reducing expenditure, as the only significant budgets without earmarked funding (grants and/or reserves) attached to them are the Great Place: Great Service (GP:GS) Town Hall (£550k) and Netcall (£50k) schemes. Until the business cases for these projects are available it would be difficult to make a decision on whether to remove or reduce them.

The deficit has been caused by the delay in generating capital receipts so the proposal is to approve in principle, at this early stage in the financial year, the use of temporary prudential borrowing of up to £3.8m to meet the shortfall.

5.5 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 and 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 £1.5m, 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 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 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. There will be other commitments to include as decisions on new VR/VER applications are determined. There are two new applications of the fund to note:

1. A contribution of up to a maximum of £14k to group action claim for damages resulting from the incorrect VAT treatment of postal charges going back many years. If successful the claim could be worth a six figure sum.
2. The settlement of dilapidation costs of approximately £20k due on the expiry of the lease of a property to the Council on Whitting Valley Road.

Table – Budget Risk Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**781**	
Less Approved Commitments:		
STWA tenants consultation exercise	**(30)**	
Land Charges claims - paid	**(35)**	
Land Charges claims – outstanding balance	**(9)**	
Land Charges claims – New Burdens grant	**64**	
Erin Road Pumping Station	**(50)**	
External legal advice re works in default	**(3)**	
Learning & Development - training	**(6)**	
15/16 Growth – private sector stock survey	**(26)**	
15/16 Growth – Data Custodian Officer	**(17)**	
14/15 carry forward – Local Plan	**(14)**	
14/15 carry forward – Env Services ICT system	**(4)**	
14/15 carry forward – Election expenses	**(6)**	
Alderman Celebrations	**(5)**	Cnl 22 July
Digital Content Officer post	**(18)**	Cnl 22 July
Contribution to group litigation claim for damages re incorrect VAT treatment	**(14)**	
Dilapidation costs Whitting Valley Road	**(20)**	
Uncommitted Balance	**588**	

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

Table - Invest-to Save Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**285**	
Less Approved Commitments:		
Customer Service Strategy - capital	**(105)**	
Local Collective Agreement	**(10)**	
Car park improvements	**(111)**	
Venues refurbishment	**(33)**	
Holmebrook Valley Park drainage	**(3)**	
Community Infrastructure Levy	**(5)**	
Uncommitted Balance c/fwd	**18**	

6.4 **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:

Table - Service Improvement Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st April	**1,154**	
Less Approved Commitments:		
Linacre Master Planning	**(40)**	
Linacre Master Planning – second tranche	**(20)**	Cnl 22 July GF 2/3 share
Project Academy (balance)	**(52)**	
Grit storage facility	**(5)**	
Venues refurbishment	**(20)**	
Car parking improvements	**(15)**	
Innov Centres – telephony system	**(204)**	
Innov Centres – telephony system - repayments	**25**	
Northern Gateway	**(100)**	
Open Market reconfiguration	**(23)**	
Waterside – legal costs	**(33)**	
Uncommitted Balance	**667**	

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 The General Working Balance has been reduced from £1.75m to £1.5m when the budget was set in February 2015 reflecting the perceived reduced risk at that time of the Business Rates Retention and the Localisation of Council Tax Support schemes. 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. Many of the issues identified in the first four months of 2015/16 are likely to continue into future years. The latest medium term forecast indicates significant deficits in all years. In 2016/17 the deficit has increased by £300k due to the Council's unfunded balance of the Business Rate Account deficit in 2014/15. The table below compares the latest forecast with the original budget forecast (before savings targets) approved in February:

Budget Deficit Forecasts			
	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**
Latest Forecast	**490**	**1,793**	**1,875**
Feb 2015 Budget	680	1,379	1,760
Change	(110)	414	115

7.2 In the Summer Budget (July 2015) the Chancellor asked non-protected departments to exemplify savings of 25% and 40% in real terms by 2019/20. What this will mean for local government is difficult to predict. It is possible that ministers will want to ensure social care is protected which will then add further pressure to the remaining unprotected services. Ministers might also take the view that the level of reserves in local government suggest that authorities are not really feeling the pinch yet. Our medium term forecast assumes a 41% reduction in settlement funding by 2019/20 and this has contributed towards the large budget deficits we face in 2016/17 (£1.8m) and future years.

7.3 The cuts in Government funding might require more than just reducing Settlement Funding Assessments and could, for example, include changes to the New Homes Bonus (NHB) scheme. It is widely acknowledged that the NHB is too generous to authorities, particularly shire districts with housing growth, when they also benefit from the growth in council tax income. Some form of reduction in the incentive effect (e.g. to 50% rather than 100% of the national council tax used to calculate the payment) or a reduction in the shire district share (currently 80%) is possible. Our medium term forecast assumes that the scheme will continue unchanged, with the estimated NHB of £0.8m in 2016/17 being used to support the budget, rising to £1.1m by 2019/20. Any reduction in the grant could, therefore, have a serious impact on the Council's finances.

7.4 The current medium term budget forecast also assumes that the Business Rates Pooling arrangement will continue into the future and that the £0.4m gain will be used each year to support the budget. However, the Government approves pooling arrangements on an annual basis so there is a risk that the gain could be withdrawn at some point in the future.

7.5 It is also uncertain at this point in time to what extent, if any, our New Homes Bonus allocations and Business Rates gains will be affected by the proposals to be included in the Sheffield City Region and D2N2 devolution bids.

7.6 The Spending Review which is due to be announced on 25^{h} November 2015 will set out the departmental spending limits but what this means for individual local authorities will not be known until the Provisional Grant settlement is announced, perhaps some weeks later.

7.4 Local Council Tax Support Scheme for 2016/17 - Officers are currently reviewing whether the current scheme will need any significant changes as a result of the welfare budget changes announced in the Summer Budget. If any changes are required these will be included in a report for the Cabinet 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 2016/17 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 2.0% in 2016/17 and 3.0% in future years; and
  - CPI of 1.0% in 2016/17 and 2.0% in future years.
- Business rates are based on the RPI in the previous September – a rate of 1% for 2016/17 and 2% in 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 2016/17 to the full Council in December.

c) Monthly Corporate Cabinet/Corporate Management Team budget priority setting workshops arranged from September through February;

d) Cabinet 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 2016.

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

8.3 Consultation with the public – a new consultation process was introduced for the 2015/16 budget setting process which involved presentations and voting exercises at the four Community Assembly meetings during November. The feedback on this new arrangement was generally positive so it is proposed that we continue with a similar format for 2016/17.

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 2016/17 in February 2016.

11.0 CONCLUSIONS

11.1 We are facing a potentially significant budget deficit in the current financial year and some major financial challenges in the years ahead. It is possible that the current years' deficit could be reduced through tight budgetary control through the remainder of the year, with any residual deficit being met from reserves. But we have to maintain our focus on the medium term where the scale of the forecast deficits is such that some significant budget savings are going to have to be implemented. At the same time there are a number of risks that could add further pressure to the forecast deficits in future years e.g. New Homes Bonus allocations and Business Rates income.

11.2 The sooner the savings are made the better, as any delay will add further pressure to the future. For example, the £1.8m deficit forecast for 2016/17 will require savings equivalent to £150k per month to be found if implemented from the 1st April 2016 but the monthly target will increase to £300k if implementation is delayed by six months. Achieving savings of this magnitude will require some fundamental changes to the range and quality of the services the Council provides.

11.3 Officers are 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;
- Vacancy control;
- A 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;
- Budget Worksop sessions with the Corporate Cabinet and Corporate Management Team to further develop and monitor the actions above.

11.4 Delivering the required budget savings has to be the number one corporate priority.

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 short term prudential borrowing be approved in principle at this stage to cover any capital funding deficit caused by the delays in generating capital receipts. (para. 5.4).

12.3 That the proposed use of reserves as set out in Section 6 of the report be reviewed and confirmed.

12.4 That the updated medium term forecast, risks and savings targets be considered (Section 7).

12.5 That the budget preparation guidelines in para. 8.1 be approved.

12.6 That the approach to budget consultation be considered (para. 8.3).

12.7 That the proposed short and medium term actions to address the forecast revenue budget deficits are supported (para. 11.4).

13.0 REASON FOR RECOMMENDATIONS

13.1 To monitor the Council's finances.

BARRY DAWSON,
CHIEF FINANCE OFFICER

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

Officer recommendation supported.

Signed Cabinet Member Consultee Cabinet Member

Date 14/9/2015