



CABINET

Report of: Councillor Adam Stokes
Cabinet Member for Finance

Report to:	Cabinet
Date:	20 December 2018
Subject:	Financial Management 2018/19: Mid-Year Update (CFM480)

Decision Proposal:	Budget Framework Proposal
Relevant Cabinet Member:	Cllr Adam Stokes- Cabinet Member for Finance
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SUMMARY

This report updates Cabinet on the full year forecast position for 2018/19 as at the end of Quarter 2 (30 September 2018). The report covers the following areas:

- General Fund Revenue Budget (Section 2)
- Housing Revenue Account Budget (Section 3)
- Capital Programmes – General Fund and HRA (Section 4)
- An update on the national financial context, including announcements in the Budget Statement and the latest position with the Business Rates Pilot (Section 5) along with recommendations in respect of amendments to the 2018/19 General Fund Revenue Budget.

RECOMMENDATION

Cabinet is asked to:

1. Note the forecast 2018/19 revenue and capital outturn position for both the General Fund and HRA, as at the end of Quarter 2.
2. Recommend to Council the allocation of the projected business rate financial growth as set out at paragraph 5.9.
3. Recommend to Council the changes to earmarked reserves as set out at paragraph 5.13.
4. Recommend to Council that approval to utilise Invest to Save reserve be delegated to the Cabinet member for Finance and the s151 officer.
5. Recommend to Council that approval to utilise the property maintenance reserve and the ICT reserve be delegated to the Deputy Leader of the Council and the s151 Officer.

1. BACKGROUND TO REPORT

- 1.1 The Council, having set a balanced budget at the start of the financial year, needs to ensure the delivery of this budget is achieved. Consequently, there is a requirement to regularly monitor progress so corrective action can be taken when required.

2. GENERAL FUND REVENUE BUDGET

- 2.1 The 2018/19 original general revenue budget approved by Council on 1 March 2018 was set at £17.161m, this budget has been amended during the year to allow for budget adjustments. The budget as at 30 September 2018 is £18.785m as a result of the following amendments being approved during the year:

Revenue Budget amendment	£'000
2017/18 Budget Carry forward and set asides	694
Environment SK	40
Deliver SK	100
One off costs arising from the Senior Management Restructure	710

2.2 The following table summarises the general fund budget position by Directorate as at 30 September 2018.

	Quarter 2			
	2018/19			
	Original Budget £000	Adjusted Budget £000	Forecast Outturn £000	Forecast Variance £000
Priority Focus				
Commercial	6,051	6,172	6,244	72
Growth	6,773	6,689	7,211	522
Resources	4,337	5,844	5,994	150
Net Cost of Service	17,161	18,705	19,449	744
Interest and investment Income	(250)	(250)	(287)	(37)
Interest Payable	52	52	52	0
Minimum Revenue Provision	247	247	154	(93)
Depreciation	(3,400)	(3,400)	(3,400)	0
Local Council Tax Support Scheme Grant	22	22	22	0
Reserves & Grants	(1,960)	(3,504)	(3,437)	67
Total Net Cost of Service	11,872	11,872	12,553	681
Business Rates	(4,400)	(4,400)	(4,400)	0
Business Rates Growth and S31 grants	(250)	(250)	(2,200)	(1,950)
Transfer from Business Rates volatility reserve	(397)	(397)	(397)	0
Collection Fund (Surplus)/Deficit	321	321	321	0
Council Tax	(7,146)	(7,146)	(7,146)	0
Total Funding	(11,872)	(11,872)	(13,822)	(1,950)
(Surplus)/Deficit	0	0	(1,269)	(1,269)*

*see the table on page 9 for the proposed allocation of the business rate growth

2.3 The most significant variances which have impacted on the deficit position are as follows:

2.4 Commercial

- Fuel prices have increased during 2018/19 which has resulted in an estimated overspend of £80k which is being funded from the Waste and Recycling initiatives reserve.
- There is a forecast overspend of £45k on the vehicle repairs budget due to the number of external repairs that have been undertaken. The workshop does not have the equipment or expertise to be able to complete the specialist works that are required.

- Garden Waste income has exceeded the budget by £40k following 28,029 households renewing their subscription and 891 new households signing up to the service.

2.5 Growth

- The Council allocated £3.9m of Capital budget for property investment acquisition opportunities which have not yet been identified. This has resulted in a variance of £93k in the investment strategy income budget.
- The markets income budget has a shortfall of £42k due to reduced levels of income from Grantham market and the proposed increase in the number of market stalls in Stamford has not yet been implemented following consultation.
- There has been a reduction in the level of rental income received from third parties for the rental of Council Office accommodation which has resulted in a loss of income of £42k. This office space is currently being occupied by Council officers whilst the St Peter's Hill Public Realm and Office remodelling work is completed.
- Car park income has a forecast variance of £250k following a reduction in the forecast compared with the budgets. There has been a modest increase in income from the additional spaces created in Stamford Cattlemarket.
- The 2018/19 budget included £100k income relating to the transfer of non-dwelling HRA assets to the General Fund. The identified sites are in the process of being assessed for their suitability for housing development resulting in a forecast variance of £75k.
- There has been a significant increase in the demand for emergency accommodation which has resulted in a forecast overspend of £43k. Work is currently being undertaken to mitigate future costs.

2.6 Resources

- There is a forecast underspend of £219k of one-off from staffing budgets due to a number of vacant posts in Revenues and Benefits, ICT, Transformation, Legal and Customer Services.
- The HRA is recharged annually for the use of general fund support services. The basis for this recharge calculation has been reviewed which has resulted in £263k additional income to the general fund from the HRA for services provided.

3. HOUSING REVENUE ACCOUNT

- 3.1 The original budget for 2018/19 was set at a surplus for the year of £6.668m. The budgeted surplus is transferred to the reserves in order to provide internal funding for the HRA capital programme.
- 3.2 The budget is adjusted in year to allow for budget virements, creation of set-asides and centralisation of key budget headings. The forecast surplus has reduced to £6.095m which has resulted in a forecast overspend of £410k.

	Quarter 2			
	2018/19			
	Budget £000	Adjusted Budget £000	Forecast Outturn £000	Forecast Variance £000
Expenditure	16,183	16,346	16,626	280
Income	(25,439)	(25,439)	(25,309)	130
Net Cost of Service	(9,256)	(9,093)	(8,683)	410
Interest Payable and Similar Charges	2,816	2,816	2,816	0
Interest and Investment Income	(228)	(228)	(228)	0
DEFICIT (SURPLUS) FOR THE YEAR ON THE HRA	(6,668)	(6,505)	(6,095)	410

3.3 The most significant variances which have impacted on the reduced surplus position are as follows:

- The income expected from housing rents is £150k below budget due to estimated write-offs of £120k and the void rate being higher than expected. This is partly offset by forecast additional income of £20k from services and facilities charges
- There is a forecast overspend of £188k of the repairs and maintenance budget due to an increase in material costs and reactive works and the work force efficiency not being achieved due to vacancies being lower than anticipated.
- The workforce efficiency of £94k has also not been achieved on the Supervision and Management budget due to vacant posts being lower than anticipated.

4. CAPITAL PROGRAMME

4.1 The original capital budget for 2018/19 was set at £14.839m. The budget is adjusted during the year as new projects are identified. The updated position of £17.478m is shown in the 'Adjusted Budget' column in the table below. A summary of the budget changes that have been approved during the year are as follows:

Date	Capital Budget Adjustment	£000
June 2018	Budget carry forwards	528
July 2018	Grounds Maintenance Vehicles	450
July 2018	St Peter's Hill Public Realm	1,661

4.2 The following table summarises the general fund capital budget position as at 30 September 2018. The capital budget has a forecast underspend of £2.133m which has reduced the in-year transfer from reserves by £1.5m and grant funding by £0.6m. It is anticipated that there will be requests to carry forward the underspent budgets and associated funding to 2019/20.

GENERAL FUND CAPITAL PROGRAMME MONITORING - SEPTEMBER 2018				
2018/19				
	Original Budget £000	Adjusted Budget £000	Forecast Outturn £000	Forecast Variance £000
EXPENDITURE SUMMARY				
Growth	13,879	15,726	13,628	(2,098)
Commercial	835	1,585	1,585	0
Resources	125	167	132	(35)
	14,839	17,478	15,345	(2,133)
Financing Analysis				
Prudential Borrowing	(2,000)	(2,000)	(2,000)	0
Use of Reserves	(10,917)	(13,513)	(11,980)	1,533
Capital Receipts	(788)	(788)	(788)	0
Capital Grants and Contributions	(1,134)	(1,177)	(577)	600
	(14,839)	(17,478)	(15,345)	2,133
NET EXPENDITURE	0	0	0	0

4.3 There are a number of both positive and negative variances which form the £2.133m underspend. The most significant variances are as follows:

- There is a £1.4m underspend on the Gravitass Housing Scheme project. There was a delay in the commencement of this project which is a 12-month project therefore it will be necessary to carry forward the funding into 2019/20.
- The Council has received £797k of disabled facilities grant funding which is currently forecast to be underspent by £477k. Mandatory DFGs require a referral from Lincolnshire County Council Occupational Therapy Team. To date 66 applications have been received and 49 have been successful after meeting the criteria.

4.4 The following table summarises the HRA capital budget position as at 30 September 2018. The capital budget was set at £10.004m and currently has a forecast underspend of £2.224m which has reduced the in-year transfer from reserves. The underspend relates to the property development budget spend of which is dependent upon sites being identified for investment. It is anticipated that there will be a request to carry forward the underspent budget and associated funding to 2019/20.

HRA CAPITAL PROGRAMME MONITORING - SEPTEMBER 2018				
2018/19				
	Original Budget £000	Adjusted Budget £000	Forecast Outturn £000	Forecast Variance £000
HRA Investment Programme				
Stock Improvements & New Build Programme	9,680	9,680	7,456	(2,224)
Purchase of Vehicles	324	324	324	0
	10,004	10,004	7,780	(2,224)
Financing Analysis				
Major Repairs Reserve	(4,214)	(4,214)	(4,215)	(1)
Property Development Reserve	(5,000)	(5,000)	(2,775)	2,225
HRA Capital Receipts	(790)	(790)	(790)	0
	(10,004)	(10,004)	(7,780)	2,224
NET EXPENDITURE	0	0	0	0

5. FINANCIAL UPDATE

Budget 2018

- 5.1 The Chancellor of the Exchequer presented his Budget 2018 to the House of Commons on 29 October 2018. Within the budget there were a number of new initiatives that will have an impact on the Council's financial position in the short to medium term.
- 5.2 The most significant to the Council is the confirmation that the Housing Revenue account borrowing cap was abolished from 29 October 2018 in England. The borrowing cap controlled local authority borrowing for house building and limited the borrowing that the Council could undertake for the HRA to £135m in total, of which we have £106m of outstanding debt leaving £29m headroom. The removal of the cap means that future borrowing decisions need to be assessed within the prudential framework mindful of ongoing affordability.
- 5.3 There were a number of changes to business rates announced, many of which will come into effect from April 2019. The changes are summarised in the table below. The Council will be fully compensated for any loss of income from these initiatives through a section 31 grant.

Announcement	Impact on SKDC
Providing upfront support to the business rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits.	An initial assessment of the positive impact this will have on the businesses within the district has suggested that approximately 500 businesses (88% all eligible retail units) will see a reduction in their rating liability from April 2019.

Announcement	Impact on SKDC
The introduction of 100% business rates relief for all public lavatories from 2020/21 with the aim of helping keep these amenities open	The Council operates 4 public lavatories in the district and this proposal will result in a full year reduction of £11K in the rating bill of the Council.
Continuing with the £1,500 business rates discount for office space occupied by local newspapers in 2019/20.	This Council awarded relief totalling £3k in 2018/19 and will continue to provide this rating reduction in accordance with the budget announcement.

- 5.4 The Chancellor also announced that he was providing Councils with an additional £55m in 2018/19 for the Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low incomes. It has been announced that the Council will receive £93,365 of additional allocation.
- 5.5 Looking further ahead, the provisional settlement is expected during December 2018 which will include financial allocations for Councils across England and Wales and should include the details of the 19/20 100% business rates pilot authorities, New homes bonus allocations, baseline funding and details of revenue support grants (including whether the Council will be impacted by negative revenue support grant as currently predicted). A verbal update will be provided at the Cabinet meeting on 20 December if there is any information available.

2018/19 100% Business Rates Pilot for Lincolnshire

- 5.6 Members will be aware that the Council is currently part of the Lincolnshire (including North East Lincolnshire) pilot area. During the year careful monitoring and forecasting of the pilot has been undertaken by specialist financial advisors working alongside technical officers from each participating authority.
- 5.7 The current projection of performance for each authority as at quarter 2 is shown as:

Lincolnshire Pool	Projected Business Rate Income above baseline £'000
Lincolnshire Pilot Gain	34,574
South Kesteven	2,291
Total	36,865

- 5.8 It can be seen that based on current projections the additional growth for South Kesteven for 2018/19 is currently forecast to be £1.95m. It is important to note that this is a forecast as at 30 September and could change during the rest of the year if there are significant changes, for example, High Street retail closures and/or business closures.

- 5.9 Should the Council receive a one-off financial gain of £1.95m as currently projected, it is for Council to decide how the additional funding should be utilised. Given the current forecast position on the general fund revenue budget set out in Section 1 of this report, it is recommended that the first call on the business rate gain is addressing the overspend. Based on the forecasting undertaken the overspend as at 31 March 2019 is expected to be £681k. It is anticipated that the forecast will change as the remainder of the year progresses. Therefore, the proposed allocations may vary depending on the final outturn position but the following are the current proposals:

Detail	£'000
Business Rates gain	1,950
Allocated to the following:	
Balancing the 2018/19 revenue budget	(681)
Funding of new Priority Growth Projects in 2018/19 (see 5.10 below)	(260)
Funding of one off urgent items arising in 2018/19 (see 5.11 below)	(149)
Creation of a Small Grants for Local Businesses scheme	(50)
Formation of a Property maintenance reserve in order to fund emergency repairs that may arise during the course of the financial year	(110)
Balance remaining to be set aside in a specific reserve to finance future Growth/Regeneration projects	(700)

- 5.10 The proposed allocation referred to above was considered by the Growth Overview and Scrutiny Committee at their meeting on 28 November 2018 and the Committee supported the proposed allocation as presented.
- 5.11 The following is a proposed allocation of funding to drive forward key priority projects themed within the headings:

Heading	Proposed Allocation £'000
Leisure	80
Town Centres	63
Property Development	55
Business and Skills	62
Total	260

- 5.12 There are a number of emerging priority expenditure items that are proposed to be undertaken in this financial year. These items are one-off in nature and are summarised below:

Heading	Proposed Allocation £'000	Summary commentary
Broad Street Stamford building works	25	Emergency repairs to Council owned premises
Red Lion Square Stamford feasibility works	12	Feasibility study for works to Red Lion Square building repairs, internal refurbishment
Asbestos Management remedial works	50	Ongoing compliance works in accordance with Asbestos Regulations 2012
Closed churchyards	40	Responsive repairs to specific close churchyards
Cyber security risk remediation	10	Review of the Council's compliance arrangements in relation to Government Digital Services
Community Infrastructure Levy (CIL)	12	Feasibility exercise to consider the business case for the introduction of CIL
Total	149	

- 5.13 Cabinet is asked to consider the allocation as identified above and make proposals to be considered by Council in January 2019.

Review of Earmarked Reserves

- 5.14 The opportunity has been taken to review the Council's earmarked reserves as part of the preparatory works for the development of the 2019/20 budget proposals. This review has focused on the discretionary reserves that are primarily used to fund specific projects and expenditure that are one-off in nature. The objective of this review was to ensure that the funds are earmarked in line with priorities and to consolidate reserves if appropriate. These are summarised as:

Reserve Heading	Forecast balance as at 31 March 2019 £'000	Movement £'000	Proposed new balance £'000	Comments
Service improvement reserve	355	(355)	0	Consolidated into Invest to Save reserve
Invest to Save reserve	645	355	1,000	Transferred from Service improvement reserve

Reserve Heading	Forecast balance as at 31 March 2019	Movement	Proposed new balance	Comments
	£'000	£'000	£'000	
Property Maintenance reserve	0	110	110	Allocation from business rate growth. Established to provide funds for works that are required to Council owned buildings for which there is not annual revenue budget.
ICT reserve	120	200	320	Allocation from local priorities reserve
Regeneration reserve	0	1,200	1,200	£700k from business rate growth and £500k from Local Priorities Reserve.

Property Maintenance reserve

- 5.15 The primary purpose of this reserve is to provide in-year funding to support unforeseen expenditure that may arise in respect of the Council's asset portfolio that would have a detrimental impact on the asset if not treated. It is recommended that the Cabinet member for Business Transformation and Commissioning approve any in-year expenditure in accordance with business need.

ICT reserve

- 5.16 The ICT reserve is included as part of the Council approved budget framework and is utilised to respond to fluctuations in business requirements, unforeseen costs and in year ICT investment opportunities that may arise. The reserve can be utilised to 'smooth out' financial volatility and ease pressure during each financial year. It is recommended that the Cabinet member for Business Transformation and Commissioning approve any in-year expenditure in accordance with business need.

Regeneration Reserve

- 5.17 In order to provide the available financing for the acquisition of key strategic assets it is proposed to create a specific reserve for this purpose. The Council will use a combination of both internal and external borrowing as required which will incur a MRP (minimum revenue provision) allocation and possible interest costs (where external borrowing is undertaken). These costs will be charged directly to the reserve in order to avoid any budgetary pressure on the annual revenue budgets. The recent approved purchase approved by Council on 27 September will be financed from this reserve for the period the asset is held by the Council.

Invest to Save Reserve

- 5.18 An invest to save reserve has been approved by Council and is included in the 2018/19 budget framework. The primary purpose of the reserve is to 'pump prime' initiatives for projects that clearly demonstrate within a business case that cashable savings could be realised following a one off injection of investment. Examples of these initiatives include investment in modern equipment which then releases ongoing sustainable savings through cashable efficiencies. However, in some scenarios the investment can be relatively speculative as the cost incurred may be to investigate a potential cost saving opportunity. Initiatives of this kind should also be encouraged where supported by a business proposal.
- 5.19 In order to accelerate these proposals, it is important there is a mechanism in place that allows the resource to be released without unnecessary delay in order to achieve the savings as early as possible. Therefore, Cabinet is asked to consider that delegation is given to the Cabinet Member for Finance and the s151 officer (or their nominated officer) to consider and approve proposals for its use.

6. OTHER OPTIONS CONSIDERED

- 6.1 Not applicable.

7. RESOURCE IMPLICATIONS

- 7.1 There are no resource implications arising from this report.

8. RISK AND MITIGATION

- 8.1 Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls
Financial risk	Specific parts of the financial commentary are based on forecasting information and will therefore be subject to review and potential amendments during the course of the remainder of the year

9. ISSUES ARISING FROM IMPACT ANALYSIS (EQUALITY, SAFEGUARDING etc.)

9.1 No impact analysis is required.

10. CRIME AND DISORDER IMPLICATIONS

10.1 There are no crime and disorder implications arising as a result of this report.

11. COMMENTS OF FINANCIAL SERVICES

11.1 These are included in the report

12. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

12.1 As part of good governance it is important members are kept updated in respect of the financial position of the Council expenditure during the course of the year.

13. COMMENTS OF OTHER RELEVANT SERVICES

13.1 None.

14. APPENDICES

14.1 None.

15. BACKGROUND PAPERS

15.1 Determination of Budget 2018/19 and indicative budgets to 2020/21 – General Fund, Housing Revenue Account and associated Capital Programmes report:

<http://moderngov.southkesteven.gov.uk/documents/s19700/CFM453Budget%20COUNCIL%20V2.pdf>

15.2 Financial Management Report for 2018/19 - April-June (Quarter 1) Monitoring Information report:

<http://moderngovsvr:8080/documents/b6222/Q1%20Financial%20outturn%20201819%2025th-Jul-2018%2010.00%20Growth%20Overview%20and%20Scrutiny%20Committee.pdf?T=9>

15.3 Growth OSC 28 November 2018:

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=631&MId=3638&Ver=4>