<u>For publication</u>

2017/18 Budget & Medium Term Financial Plan

Meeting:	Council
Date:	23, February, 2017
Report by:	Director of Finance & Resources

For publication

1.0 Purpose of report

1.1 To consider the General Fund budget report and to make recommendations to the full Council on the budget allocations and council tax level for 2017/18.

2.0 Recommendations

2.1 **That Full Council:**

2.1.1 Approves the revised budget for 2016/17 (Section 5).

2.1.2 Notes the Local Government Finance Settlement (Section 7).

2.1.3 Notes the Collection Fund and the Tax Base forecasts (Section 11).

2.1.4 Approves the portfolio budgets and the overall revenue budget summary for 2017/18 (Section 13 and Appendix A).

2.1.5 Delegates authority to the Director of Finance & Resources in consultation with the Leader, Deputy Leader and Chief Executive to review what is required to ensure that maximum opportunity is taken from the flexibility available to use capital receipts for revenue purposes where such investment will lead to budget savings (paragraphs 13.8).

2.1.6 Notes the budget forecasts for 2017/18 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

2.1.7 Approves the growth request of £100k for an HS2 project officer to be funded from the Service Improvement Reserve (para 13.6).

2.1.8 Approves the estimates of reserves including:

a) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).

b) Transferring from the Crematorium Capital Improvement & Revenue Reserves subject to JCC approvals in March 2017 £200k to a new Northern Gateway reserve to support underwriting the Jomast Coop development in 2018/19 and £250k into Business Rate Risk Reserve. Further explanation is set out later in the report (para 16.12).

c) Using £467,302 Insurance Reserve surplus funds as identified by our consultants Kerberos Risk Services Ltd in their December 2016 review, identifying we currently need insurance reserves and provisions of £1,390,127 and as at the 31st March 2016 we had insurance reserves and provisions totalling £1,857,429. Withholding £60,000 to cover insurance excesses and self-insurance charges, £407,302 can be used to reduce General Fund contributions into reserves, therefore supporting the budget position in 2017/18 and 2018/19 by £150,000 then £107,000 in 2019/20. Further explanation is set out later in the report. (para. 16.9).

2.1.9 Notes the budget risks and sensitivity analysis (Section 19).

2.1.10 Approves the Cabinet's recommended £5 Council Tax increase for 2017/18.

2.1.11 Approves the 2017/18 Council Tax Requirement and financing (Appendix J).

2.1.12 Notes the Director of Finance & Resources assurances (Section 24).

3.0 **Background**

3.1 This report covers the General Fund revenue budget and is one part of a suite of budget reports which together make up the Medium Term Financial Plan. The other budget related reports include the HRA Budget, HRA Rent Setting, HRA Capital Programme, General Fund Capital Programme and Treasury Management reports.

3.2 The Council's Budget Strategy (**Appendix C)** is to set a sustainable and affordable budget over the medium term. This report looks ahead over the coming five financial years to determine the resources available, what are the spending pressures/priorities and how a balanced budget can be achieved.

3.3 The major funding sources for the General Fund are Government grant (RSG), business rates growth, fees & charges (car parking, leisure income etc.), rental income from the Council's extensive industrial & commercial property portfolio and the council tax. The Government is, therefore, able to regulate a large proportion of the resources available to the Council through the grants it provides and by placing restrictions on Council Tax increases.

3.4 At a national level the Government is committed to balancing the public finances, though with the new government over a longer term. The cuts in the funding for local government will continue over the next few years in line with the proposals set out in Treasury spending statements.

3.5 The Local Government Finance Settlement in December 2016 confirmed:

- Our 4 year RSG settlement funding will fall from £1.2m in 2017/18 to £0 in 2020/21.
- New Homes Bonus (NHB) funding will be reduced from 6 years in 2016/17 to 5 years in 2017/18 and then 4 years afterwards. In addition a 0.4% base line (based on council tax property numbers) will be introduced in 2017/18, which

means that NHB funding will only be available for Councils building or bringing back into use properties above the expected baseline number. The implications for Chesterfield are set out in paragraph 9.3 of this report.

- The apprenticeship levy commencing April 2017 will be set at 0.5% of an employer's pay bill less an allowance of £15k. The costs to the Council from 2017/18 will be £82k shared between the General Fund (£31k) and Housing Revenue Account (£51k).

3.6 The Local Government Association and others continue to issue warnings about councils' abilities to continue to deliver services, both discretionary and statutory, in the future and about the increasing likelihood that some councils could be reaching a tipping point.

3.7 The timing and implications of the Government plans to move to 100% business rates are an uncertainty for future funding to the Council. The outcome of the pilot areas 'testing' 100% business rate retention is unclear at this stage. Business Rates have been revalued nationally for 2017/18 and the level of appeals is an unknown risk. The Council continues to benefit from the risk/benefits available to it through being in the Derbyshire pool and will remain in the pool for 2017/18.

3.8 **This report does not allow for the impact of the possible award of 80% business rates mandatory relief to the local NHS Trust**. An agent acting on behalf of a number of NHS Trusts has written to their local councils claiming that the Trusts are entitled to 80% mandatory relief. Nationally, this is a very significant issue given the size of the premises concerned, the potential on-going loss of Business Rate income is significant and the cost of up to six years back-dating will be enormous. For the Council the on-going loss of income from its 40% share is approximately £0.3m per annum (40% x £0.8m) and £2m of a back-dated refund (40% x £5m). At the national level the Local Government Association has taken up the issue and is taking legal advice from counsel. If there any developments on this issue by the date of the Council meeting an update will be provided at the meeting.

3.9 The Council Tax must be set at the Council meeting on 23rd February, which means that the Cabinet must now finalise its proposals for achieving a balanced budget.

4.0 Policy & Financial Planning Framework

4.1 A copy of the Council's Financial Strategy is attached at **Appendix D.** Its overall aim is to establish a framework for aligning the revenue and capital spending proposals with the Council's strategic priorities. This report covers the application of the strategy for the next five years. The Medium Term Financial Plan (MTFP) itself is supported by other financial strategies including the Capital Strategy, the Treasury Management Strategy and the Asset Management Plan.

4.2 The MTFP is just one of a number of plans and strategies that link into the overall Council Plan; others include the Workforce Plan, the HRA Business Plan, the Local Development Framework, etc. These are designed to help ensure that the Council provides efficient and effective services, delivers value for money and achieves continuous improvement.

4.3 The Council Plan should guide the Council's resource allocation and performance management arrangements. The Council Plan has been developed in tandem with the preparation of the Medium Term Financial Plan and both plans will be included on the same agendas for the Council and Cabinet meetings.

5.0 Revised Budget 2016/17

5.1 The Council approved the original budget for 2016/17 on 25th February 2016. The original budget allowed for a reduction in General Government Grant (Settlement Funding) of £0.5 million and no change in retained Business Rates Baseline income. The Council Tax had been increased by £5 to £149.89 for a Band 'D' property. After allowing for planned savings of £1,051k this left a deficit of £236k to be met from other savings to be identified in the year or from reserves.

5.2 2016/17 has proved another challenging year in terms of budget management but significant savings totalling £800k have been made. There have been managed budget variances, both increases and decreases. Budget monitoring reports were presented to the Cabinet and full Council during the year and the position changed at each stage. The table below provides a summary of the net forecast at each reporting stage:

Table – 2016/17 Surplus / (Deficit) Forecasts Through the Year

Date	Net surplus / (deficit)	Change on previous
Feb 16 – approved budget	(236)	0
Sept' 16 – end of quarter 2	(326)	(90)
Dec'16 – revised budget	(186)	142
Feb'17 – this final budget report	105	290

The revised portfolio budgets for 2016/17 were reported to the Cabinet on the 13th December as part of the first draft budget report. Full details of variances on the portfolio budgets were included in the respective reports.

Since then further work has been undertaken through budget monitoring and challenge sessions to identify other possible variances for inclusion in the final budget report. The updated revised budget forecast for 2016/17 shows an estimated surplus of £105k, subject to the planning budget being on target and no significant variances to other budgets. (**Appendix A)**.

5.3 The revised budget assumes a contribution of £450k from the Derbyshire Business Rate Pool. This is based on the figures supplied by each of the Pool members to the end of December 2016. The possibility of NHS Trusts being eligible for 80% Mandatory Charity Relief on business rates remains a risk outlined in paragraph 3.8.

5.4 Every effort will be made through strict budgetary control to achieve a surplus by the end of the financial year. Any final surplus will be transferred to the Budget Risk Reserve or a deficit met from the reserve.

6.0 2017/18 Funding Sources

6.1 Significant changes to the way in which local government is funded were introduced in April 2013. Under the previous funding system a large element of the Council's budget requirement was financed by a pre-announced and fixed level of central government funding but this has been replaced with one which transfers more risk to local authorities. The most significant changes relate to the amount of Business Rates income retained through the retention scheme and the impact on Council Tax income as a result of the Localisation of Council Tax Support. At the same time the Government's austerity measures have resulted in significant cuts in Government RSG funding. The impact of these changes and details of the other major income sources available to the Council are described in more length below.

7.0 Local Government Finance Settlement

7.1 The Provisional Settlement was announced this year, on the 15th December 2016. Details of the Final Settlement are to be published and approved by the House of Commons on 22nd February 2017.

7.2 The Settlement provided final figures for 2017/18 but also included indicative figures for the following three years. The Government offered any council that wishes to take it up a four-year funding settlement to 2020/21. Chesterfield Council took up the offer on 14th October and submitted an Efficiency Plan as part of the process.

It is important to note that the Government qualified the offer by stating that final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rate multiplier changes and to reflect transfers of functions and mergers etc. The Government also says that future years allocations could change owing to unforeseen events but does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets.

7.3 The **Settlement Funding Assessment (SFA)** is calculated by the Government and sets the starting position in terms of the estimate of the funding available to the Council. The funding is a combination of Formula Funding and other funding streams that were previously paid as specific grants. The Assessment is calculated by using the Formula Funding Methodology that has been used in previous years, subject to some minor changes. The Funding Assessment is made up of two elements, Business Rates Baseline Funding and Revenue Support Grant.

Table – Settlement Funding Assessments					
	2016/17 adjusted	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Revenue Support Grant	1,836	1,239	859	434	0
Business Rates Baseline	3,087	3,150	3,251	3,367	3,451
Settlement Funding Assessment	**£4,923k**	**£4,389k**	**£4,110k**	**£3,801k**	**£3,451k**
Change between years: £		-£534k	-£279k	-£309k	-£350k
%		-11%	-6%	-7%	-9%
Cumulative change from 16/17 : £		-£534k	-£813k	-£1,122k	-£1,781k
%		-11%	-16%	-22%	-36%

The Settlement no longer provides a guaranteed level of funding as the Business Rate Funding element is just the Government's estimate of income and this will be replaced by the Council's own estimate when setting the budget.

7.4 **Revenue Support Grant** (**RSG**) – The RSG system continues to provide a mechanism for the Government to retain control over, and reduce the level of, local government funding. The level of RSG in the Settlement Funding Assessment table in para.7.3 shows that RSG will decline to £0 by 2020/21.

8.0 Business Rates Retention

8.1 At the start of the scheme (April 2013) the Government estimated a Business Rate income target for each Billing Authority as their share (the proportionate share) of the national target. The table below shows how this estimate was shared between the Government (50% Central Share), the Major Preceptors (9% to the County Council and 1% to the Fire Authority) and the Council (40%). The Council's share was then compared to its BR Baseline Funding level for 2013/14 (£2,947k) and the excess was to be paid to the Government as a '**tariff**' (£10,635k).

Calculation of Tariff at the start of the BR system (2013/14)		
	Share of Total %	**Amount £'000**
Estimated BR Aggregate (EBRA) – national total	100%	**21,797,109**
CBC Billing Authority proportionate share (0.155777%)		**33,955**
Government/Central share Major preceptors share CBC BR Baseline	50% 10% 40%	**16,977** **3,396** **13,582**
Total	100%	**33,955**
CBC – BR Baseline **Less BR Baseline Funding Level**		**13,582** **(2,947)**
Tariff		**10,635**

8.2 The calculation above was used to set the 'tariff' at the start of the scheme but the tariff is then increased each year by the increase in the Small Business Rate Multiplier (SBRM) which in turn was to be linked to RPI (Retail Price Index). The actual increases, however, have been capped as follows:

The Small Business Rates multiplier (SBRM) has, decreased from 48.4p to 46.6p in 2017/18. The Council's tariff payment for 2017/18 has decreased to **£10,887,543** (£11,141,329 in 2016/17).

8.3 The actual level of income from Business Rates to be included in the budget for 2017/18 will be based on the Council's estimate of income as shown on the NNDR1 Return. The NNDR1 return was approved by the Employment & General Committee on the 23rd January 2017. The NNDR1 return shows an estimated Net Yield of £36,925,752 with the Councils 40% share as £14,770,300. The Councils share is then reduced by the **tariff** payment of £10,887,543 leaving £3,882,757. At the same time the Council will qualify for £753,213 of Section 31 grants to make up for the loss of income from the changes to business rates announced in the Autumn Statement (small business rate relief extension, etc.). The excess of the combined amount (£4,635,970) over the Baseline Funding Assessment of £3,150,422 i.e. £1,485,548 is then subject to a 50% 'Levy'. In 2017/18, because the Council has joined the Derbyshire Business Rates Pool, the Levy will not be paid to the Government but instead will form part of the Pooling calculation which will return some of the money back to the

Council, currently estimated to be £300k (subject to a national decision on NHS trusts' entitlement to 80% Mandatory relief).

8.4 There is also a **Safety Net** mechanism in place to protect authorities from excessive decreases in BR income below their BR Funding level. A safety net payment will be triggered if an authority sees its share of BR income in any year decline by more than 7.5% of its BR Funding Baseline. The Council's **Safety Net threshold is £2,914k** (i.e. £3,150,422 x 92.5%). This means that the Council's share of the BR **income could fall by £236k** below its Funding Baseline of £3,150k before it qualifies for a safety net payment. If a Council is a member of a Business Rates Pool it is the Pool that must fund the Safety Net and not the Government. The estimate of BR income per the NNDR1 return is well above the Baseline level so it is highly unlikely that the Safety Net provisions will apply.

The major issue regarding the BR system has been the time taken by the Valuation Office Agency (VOA) to assess and deal with back-dated appeals originating in 2014/15. The VOA have committed its resources in 2016/17 into carrying out a national revaluation of all properties in the UK to create a new rating list which will come into effect on the 1st April 2017. As a result we have estimated that we will have £3.6m of outstanding appeals at the end of 2016/17 and due to the new rating list have estimated we will have an additional £1.2m of appeals in 2017/18. At the end of the 2015/16 financial year there was a deficit of £5.2m on the BR account due to having to create a £4.6m provision for back dated appeals. The projected deficit on the BR account for 2016/17 is £266k, the Councils share of the deficit, at 40%, equates to £106k and this has been included in the budget for 2017/18.

9.0 Other Government Grants

9.1 Details of the other grants included in the budget forecasts are included at **Appendix G**. Further detail on the most significant grants is included below.

9.2 **Housing & Council Tax Benefits Administration Grant** – the main admin grant generally reduces each year due to assumed efficiency savings. **Appendix G** and the table below provide a comparison of the allocations over recent years:

Benefits Admin Subsidy				
Year	**Status**	**Grant allocation**	**Change on previous year**	
			£'000	**%**
2012/13	Actual	876,040		
2013/14	Actual	838,812	-37,228	-4%
2014/15	Actual	764,879	-73,933	-9%
2015/16	Actual	725,600	-39,279	-5%
2016/17	Estimate	662,900	-62,700	-9%
*2017/18	Estimate	**607,010**	-55,890	-8%
**2018/19	Estimate	574,010	-33,000	-5%

*For 2017/18, both the elements funded by the Department for Communities & Local Government and the Department for Work & Pensions have been confirmed.

**The budget assumes a reduction in grant of 5% in 2018/19 to reflect the roll out of universal credit. The pace of withdrawal may increase at a faster rate by 10% or 20% as universal credits are rolled out across all customer groups. If funding is reduced the Council will need to negotiate corresponding reductions in the cost of the service which is provided by Arvato.

9.3 **New Homes Bonus (NHB)** - the grant was first announced in the Spending Review 2010. The money has been historically top-sliced from the Local Government Finance allocation to fund NHB. There has, therefore been, a strong argument for using some, if not all, of the allocations to support the revenue budget. This view is supported by the Minister of State for Housing and Planning's comment in the 2016/17 Provisional Allocations letter that "*Councils are free to spend the Bonus as they choose, including on front-line services and keeping council tax low*".

The grant is paid as a reward/incentive for increasing the housing supply and is intended to help councils finance the costs which new housing and an increased population create. The allocation for each year is paid for a period of six years and is "un-ring-fenced", which means that there are no restrictions on its use.

The Local Government Finance settlement in December 2016 following consultation proposals in the summer announced major changes to NHB:

- The NHB payments would reduce from 6 years in 2016/17 to 5 years in 2017/18 and 4 years for every year from 2018/19, in line with the preferred position in the consultation.
- A baseline for housing growth is to be set at an initial baseline of 0.4% subject to annual reviews.
- The Government will revisit the case for withholding NHB from areas not planning or delivering on housing growth from 2018-19.

The effect on the changes for the Borough have been significant. The grant expected in 2016/17 is £909,000 but is expected to fall to £2,240 by 2020/21.

New Homes Bonus (NHB)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
2011/12	126,907					
2012/13	100,843					
2013/14	123,662	123,662				
2014/15	107,600	100,569				
2015/16	154,306	154,306	154,306			
2016/17	295,859	295,859	295,859	295,859		
2017/18		2,240	2,240	2,240	2,240	
2018/19			0	0	0	0
2019/20				0	0	0
2020/21					0	0
2021/22						0
Total NHB	**909,177**	**676,636**	**452,405**	**298,099**	**2,240**	**0**

The Council historically has not built or brought back into use a large number of properties, figures are in the 100-200 net additional homes annually. Based on this and projected new building constrained by local house prices, land remediation and developers land banking, it is difficult with any certainty to project the Borough building above the new baseline 0.4% of council tax band properties in order to get NHB. Therefore being prudent in the budget **Appendix A** we have assumed no new NHB from 2018/19 resulting in a 'dramatic' decline in income as set out in the table above.

10.0 Fees & Charges

10.1 The Council's policy for Fees and Charges (**Appendix E**) requires charges to be set at a level to at least recover costs but reduced concessionary rates are permissible to ensure equal access to services. Charges are reviewed annually taking into account comparisons with other similar authorities, the case for continuing concessions, the cost recovery position, etc. Fees & Charges represent a significant income to the Council and total more than the income raised through the council tax. For 2017/18 the budget includes £9.5 million (£8.9m in 2016/17) from fees and charges compared to only £4.4 million from the council tax. The main income sources and the assumed increases for 2017/18 are summarised in **Appendix F**.

11.0 Council Tax & Collection Fund

11.1 Income raised locally through the council tax represents the other major financing source for the General Fund revenue budget.

11.2 **Collection Fund Balance** – before calculating the council tax for the coming year the estimated balance on the current year's Council Tax elements of the Collection Fund must be established and taken into account. The balance on the Collection Fund was reported to the Cabinet on 24th January 2017. There is an estimated surplus balance of £367,981 at the end of March 2017. The surplus is shared amongst the major precepting authorities; the Borough's share is £38,296 (10.4%).

11.3 **Tax Base** - the Tax Base provides an estimate of how much each £1 of Council Tax would raise. The Tax Base is expressed as the equivalent number of Band 'D' dwellings in the borough. The Employment and General Committee approved the Tax Base on 23th January 2017 as:

Tax Base – Band 'D' Properties

Area	**2016/17**	**2017/18**	**Increase / (Decrease)**	
			No.	**%**
Brimington Parish	2,243.44	2,276.05	32.61	1.5
Staveley Town	4,019.61	4,087.94	68.33	1.7
Chesterfield Area	22,008.53	22,143.93	135.40	0.6
Total	28,271.58	28,507.92	236.34	0.8

Since April 2013 the tax base has been reduced as a result of the support given under the Localised Support Scheme being treated as a 'discount'. This reduced the tax raising ability of the precepting authorities but this is compensated to some extent by the receipt of grant direct into the General Fund and by other changes to discounts and council tax support criteria which are designed to increase the tax base.

11.4 **Referendum Limit** – the capping regime was replaced some years ago with a requirement to hold a referendum if the proposed council tax increase exceeds a limit set by the Secretary of State. The limit for 2017/18 has been set at 2% but with a concession for district councils which allows them to increase their council tax by a maximum of £5 or 2%. The £5 increase is equivalent to an increase of 3.34%.

11.5 **Evaluation of the Options** – the table below compares the options of either increasing the council tax by 1.99% or £5:

Table - 2017/18 Council Tax Options

	Yield from increase £	**Band 'D' tax £**	**Band 'A' tax £**
2016/17 Council Tax	0	149.89	99.92
1.99% increase	84,954	152.87	101.91
£5 pa on Band 'D'	142,540	154.89	103.25
Difference £5 v 1.99%	**57,586**	£2.02 pa or 3.9p per week	£1.34 pa or 2.6p per week

For local tax payers the impact of a £5 per annum increase on the Band 'D' tax, compared to the current council tax, is 3.34% in percentage terms, but low in monetary terms, for a;

- **Band 'A'** property (more than half the properties in the Borough) equivalent to £3.33 per annum or 6.4 pence per week;
- **Band 'D'** equivalent to £5.00 per annum or 9.6 pence per week.

The Council's share of the overall tax bill is approximately 10% so the increase will only have a relatively small impact on the total shown on the bill.

The MTFP in **Appendix A** assumes that the £5 option will be available and taken-up in each of the four years from 2016/17 to 2019/20. The cumulative gain over the four years, compared to the 1.99% alternative, is therefore £222k.

11.6 **Council tax support** is treated as a 'discount' which means that the Council's Tax Base is reduced. The Tax Base is used to calculate how much income the Council can raise through the Council Tax, a reduction in the base reduces the potential income. To help compensate for this loss the Government pays a grant to Billing Authorities and Major Precepting Authorities. In 2013/14 the grant was separately identified. From 2015/16 the grant has been 'rolled-in' to the overall funding settlement and is no longer separately identifiable. The original grant funding included £66k relating to the parished areas and the Government said that there was an expectation that this element of the grant would be passed on to parished areas. The Cabinet agreed at its meeting on 22nd October 2013 to reduce the grant passed over to the parishes by 10%, i.e. £6,600, in 2016/17 and to apply the same reduction (£6,600) in future years.

11.7 The initial grant allocation was less than the amount received in previous years under the national Council Tax Benefit Scheme. In setting up the first Local Support Scheme for 2013/14 the Council agreed a number of measures to help address the funding gap. The Local Scheme has to be approved before the start of each financial year. On the 14th December 2016 the Council agreed to continue with the 2016/17 Council Tax Support Scheme in 2017/18. The measures designed to recover some of the cost of the scheme were grouped into two packages as follows:

The first package of measures relate to reductions in the benefit/support entitlement for those of working age only, as pensioners are protected, and included the requirement to pay 8.5% of the liability and the removal of the Second Adult Rebate.

The second package of measures relate to maintaining the changes to other Council Tax discounts, including:

- Reducing the period of 100% empty and unfurnished property relief to just 3 months (from 6 months);
- Removing the remaining 10% of Second Homes discount; &
- Introducing a 150% surcharge for properties that have been empty for more than 2 years.

11.8 The financial risks associated with providing council tax support have now effectively transferred from central to local government. If, for example, a number of local people were made redundant and they then qualified for Council Tax Support, the discount given will remove a proportion of their properties from the Tax Base. It also presents an opportunity because when people move off support the tax base will increase. The risks are shared by all of the precepting authorities through the workings of the Collection Fund.

12.0 Draft Budgets

12.1 The following assumptions have been made in preparing the draft budgets:

Table – Budget Assumptions

		2016/17	2017/18	2018/19	19/20
Pay inflation		1%	1%	2%	2%
Energy inflation		3%	2%	3%	3%
Business rates increase		3.0%	1.0%	2.0%	2.0%
Vacant posts allowance		£240k	£240k	£240k	£240k
Council tax increase / freeze grant		£5	£5	£5	£5
Settlement Funding		-16.2%	-14.5%	-13.7%	-6.5%
Fees & Charges Increase		+3%	+3%	+3%	+3%
Future service pension contribution rate		13.2%	13.2% + £140k	13.2% + £140k	13.2% + £140k
National Insurance		+3.4% = 33% increase	1%	2%	2%
Investment returns (gross)		0.83%	0.62%	0.55%	0.88%

The risks and uncertainties related to the assumptions are considered in the Risk Management section later in this report.

12.2 Since the draft Portfolio budgets were considered by the Cabinet on 13th December 2016, a number of actions have been implemented in order to produce savings, the actions included:

- **Budget Challenge sessions** with all CMT members and the relevant service managers in January 2017;
- **Continuing control** on expenditure and filling vacant posts;
- **Budget Action Plan** – which includes some of the big ticket items such as Voluntary Redundancies/Retirements, review of terms and conditions, etc. (Appendix B);
- "**Stop or reduce**" programme of reviews - To date the Corporate Cabinet and SLT has identified savings of £76k for 2017/18, increasing to £126k in later years, through this process subject to Council approvals. This programme has so far targeted a limited number of service areas but in time all non-statutory services will be reviewed through this process;
- Budget monitoring by Service Managers and Accountancy.

A summary of the overall budget including the latest changes is shown in **Appendix A**. The Budget Book for 2017/18 with the updated portfolio budgets will be included with the report to the full Council.

13.0 2017/18 Net Expenditure Estimate

13.1 The Medium Term forecast approved a year ago, by the Full Council on 26th February 2016, showed a deficit, before savings targets, of £2.0m in 2017/18.

13.2 The table below provides a summary of the budget deficit forecasts which have been reported to the Cabinet during the current financial year 2016/17:

(Deficit) / Surplus Forecasts			
Stage	**Cabinet**	**2016/17 £'000**	**2017/18 £'000**
Start of the year	23rd Feb	(236)	**28**
Revised budget report after 6 months	15thNov	(326)	**(594)**
1st draft budget report	13th Dec	(186)	**(62)**
Latest Forecast	21st Feb	105	**(209)**

13.3 The budget forecast for 2017/18 in **Appendix A** assumes a £5 Council Tax increase. The forecast shows a deficit of £209k but this is after cease and reduce savings targets. The deficit before allowing for the cease and reduce savings target is, therefore,

£286k which represents a significant improvement on the deficit forecast 12 months ago of £2.0m, but still a challenging figure.

13.4 Investment interest provides an important source of income to support the revenue budget. It is very difficult to predict how and when interest rates will move in the current economic climate. Gross returns of 0.62% in 2017/18 are currently forecast. Each ¼% movement is equivalent to +/- £100,000, of which only approximately 35% or £35k impacts on the General Fund. Further details are included in the Annual Treasury Management and Annual Investment Strategy report.

13.5 Budget Savings Proposals – a number of savings proposals were identified at a series of corporate cabinet/CMT workshops. Savings identified and delivered and the Cease & Reduce proposals are included in the budget at **Appendix A**. A summary of these savings and the proposed savings for 2017/18 is included in **Appendix B**. A risk assessed provision for non-achievement for each proposal has been built into the budget forecasts in **Appendix A**.

13.6 Budget Growth Requests – the draft budgets are based on current service levels and do not include any provision for growth. The future budget deficit forecasts make it difficult to earmark resources to fund growth requests at this stage. Any growth funding will have to be restricted to:

a) Priority activities where corresponding savings can be found from another budget (i.e. virement);

b) True invest-to-save projects where the initial funding can be met from the Invest-to-Save Reserve; or

c) Funding one-off corporate priority projects from the Service Improvement Reserve.

One growth request has been put forward. This is a request for £100k over 2 years to fund a HS2 project officer. The case for this is set out below:

Following the latest proposals from HS2 for high speed services stopping at Chesterfield station and a maintenance depot at Staveley, the council has become more involved in the partnership work underway to support and develop the case for a station and depot going ahead. Within both the D2N2 and Sheffield City

Region areas, government is expecting a growth strategy to be prepared by July 2017 that will show the potential benefits of HS2 and how local partners will maximise those. Partners are therefore looking to Chesterfield Borough Council to lead the work required to set out the growth potential in this area. Whilst work has been underway for some time regarding the depot at Staveley, a station in Chesterfield is a more recent announcement and so significant additional work is required to catch up with other parts of the growth strategies in D2N2 and SCR and, more importantly, ensure economic benefits to Chesterfield are not lost. With existing capacity already fully deployed in the development and growth service area, there is a need for additional project capacity to lead this work on behalf of the council and engage with a wide range of partners, in particular the county council. An additional provision of £100k from uncommitted reserves, to be spent across 2017-18 and 2018-19, is therefore proposed. This would be subject to Joint Cabinet and Employment and General Committee approving the case for this additional staffing resource. Current uncommitted reserves are the Invest-to-Save Reserve (£106k) and the Service Improvement Reserve (£378k).

13.7 Living Wage - The budget for 2017/18 and future years includes the cost of implementing an allowance scheme to bring lower pay scales up to the Living Wage.

- All staff currently on NJC Green Book terms and conditions who receive a basic hourly rate of pay of less than £8.45 will receive an additional allowance for the living wage to bring their basic pay to that level.
- This will not apply to craft workers as they receive bonuses which take their hourly pay above this level.
- This allowance will be awarded from April to April each year and will be reviewed annually taking into account any increases in the voluntary Living Wage set in November and annual increases negotiated through the pay settlement agreement.
- This allowance will only be awarded on basic pay and overtime payments will continue to be paid at the current rate of pay without the additional allowance.
- This allowance may be withdrawn at any point in the future if budget dictates.

13.8 Capital Receipts Flexibility - the general rule is that capital receipts can only be used to finance new capital expenditure or to repay debt. The Government introduced a relaxation to this rule, for the three financial years commencing April 2016, which will allow capital receipts to be used for revenue expenditure on transformation projects which are designed to save money.

It is recommended that delegated authority be given to the Director of Finance & Resources in consultation with the Leader, Deputy Leader and Chief Executive to review what is required and take the required action to ensure the maximum flexibility for the council in relation to capital receipts.

13.9 Council Tax Options – the draft budget assumes that the £5 Council Tax increase option is taken in 2017/18.

13.10 Strategy for funding the deficit –The Council's key response to tackling future budget deficits is its transformation programme called "Great Place: Great Service" (GPGS), the "Cease or Reduce" reviews and the Budget Savings Action Plan. The planned savings of £209k in 2017/18 will provided they are delivered in full and in good time, balance the 2017/18 budget. Further savings proposals will be developed in 2017/18 to tackle the increasing deficits forecast in the medium term. These savings are larger and will be more challenging involving difficult decisions: e.g. voluntary redundancies, changes to terms and conditions, PPP contract review, waste contract review, ceasing and reducing services etc. Every effort will be made to avoid having to use reserves to support the budget as the reserves would be better spent on things that will produce on-going revenue budget savings.

14.0 Medium Term Forecast - 2017/18 through to 2021/22

14.1 It is good financial practice for authorities to consider their budgets over the medium term and not just for the year ahead. The announcement of our RSG 4 year settlement in December 2016 has helped with certainty on the level of income we forecast. Our Business Rates Baseline also comes in the December Local Government Finance Settlement (LGFS) though it is not until we complete the NNDR1 in January that we can more accurately determine our Business Rates income. Predicting the future levels of Business rates income is not possible accurately due to: uncertainty around appeals, the annual completion of the NNDR, levels of business activity and pooling outcomes. A best estimate based on Government information provided in the LGFS and through the use of advisors is made.

14.2 The MTFP assumes that the £5 Council Tax increase option will be applied until 2019/20. The medium term forecast has been prepared based on the best available information in order to help with the longer term planning of priorities and transformation change.

14.3 The assumptions made in drafting the medium term forecast are set out in the table at para.12.1 above. Some of the assumptions built into future years' budgets may also be subject to considerable variation as described in the Risk Management section below. The table below provides a summary of the deficits/savings targets over the medium term:

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Deficit forecast before planned savings	(238)	(700)	(1,459)	(2,053)	(1,995)
GP:GS savings	46	116	116	241	241
Stop or Reduce proposals	76	126	126	126	126
Net Surplus / (Deficit)	**(208)**	**(458)**	**(1,217)**	**(1,686)**	**(1,628)**
Change on previous year – deficit (increase)/ decrease		(250)	(759)	(469)	58

Any recurring savings made in the early years will also help to reduce the deficit forecasts in the later years.

The forecasts are based on current levels of service provision with no allowance for future growth.

The scale of the forecast deficits means that work must continue in 2017 to monitor progress on the planned savings proposals and to identify new savings proposals in order to be able to produce balanced and sustainable budgets for future years.

15.0 Budget Savings

15.1 The Council has a good track record of delivering balanced budgets. The scale of the savings required in 2017/18 and future years means that delivering savings must continue to be a priority for the Council. This, however, will become progressively more difficult since the easier options have already been implemented. The Council's key response to tackling future budget deficits is its transformation programme called "Great Place: Great Service" (GPGS). The GPGS Programme focuses on the four key strategies of Customer Service, ICT, Workforce and Asset Management to transform and modernise service delivery. The "Cease or Reduce" programme of service reviews will continue until all service areas have been covered.

15.2 The budget forecasts highlight the need to deliver significant budget savings year after year. Details of the savings proposals developed by the Corporate Cabinet and the Corporate Management Team (CMT) are included in **Appendix B**. Delivering these savings quickly and at the same time planning for further savings in future years will be a huge challenge. Individual budget savings proposals will require tight programme management to ensure that they are delivered on time and produce the required level of saving. The Corporate Cabinet and CMT will have to continue to develop other proposals which are needed to address the medium term deficit forecasts. The Financial Planning Group and Overview and Performance Scrutiny Forum must continue to monitor the progress.

16.0 Reserves & Balances

16.1 The Council maintains a General Working Balance plus a number of other earmarked reserves. A review of all the reserves and provisions has been undertaken as part of the budget process.

16.2 **General Working Balance** – the working balance provides a cushion for cash flow shortages and a contingency for unforeseen events. The minimum prudent level for the working balance is a matter of professional judgement based on past experience, the level of other earmarked reserves and an assessment of future risks. The balance is being maintained at £1.5m to recognise the range of risks the Council is currently exposed to, particularly those relating to the Business Rates Retention scheme as described in para 19.1 below. The Retained Business Rates risks relate to back-dated appeals and the possible increase in claims for 80% mandatory relief. An updated financial risks assessment is provided in **Appendix I,** which indicates that a balance of £1.5m should be adequate. A balance of £1.5m is equivalent to 14% of the Council's budget requirement. Over the medium term the Council will need to continually review the minimum balance required as budget risks and the level of other earmarked reserves change.

16.3 **Earmarked reserves** are held to meet known or anticipated liabilities. Details of the earmarked reserves held by the Council, including their purpose and predicted movements over the next five years are included in **Appendix H**. Details of the main reserves are provided below.

16.4 **Budget Risk Reserve** – This reserve provides a supplement to the Working Balance to cover any budget risks and to help finance any severance costs resulting from voluntary staffing reductions and through implementing the Transformation Programme. The table below shows the opening balance in the reserve as at 1st April 2016 and the currently approved or anticipated movements on the reserve:

Table – Budget Risk Reserve		
Balance b/fwd 1st Apr 2016		1,043
Movements/commitments:		
Further Land Charges costs	(16)	
15/16 Growth – Public Sector Stock Condition	(26)	
Health & Safety prosecution	(25)	
Erin Road Pumping Station	(7)	
Local Plan professional fees	(15)	
Group litigation – postal services	(7)	
Dilapidation costs – Whitting Valley	(17)	
IDOX buy-out of lease - repayment	99	
PSN Compliance costs	(80)	
VR/VER's	(444)	
Transfers from other reserves & balances	36	
DSO Surpluses	tbc	(502)
Add: estimated budget surplus in 2016/17	tbc	105
Uncommitted Balance		**646**

The remaining balance should be maintained to help the Council through this difficult period of budget reductions e.g. to finance severance costs arising from voluntary staffing reductions.

16.5 **Invest to Save Reserve** – The purpose of the reserve is to invest and deliver savings. These savings should have been returned to the Invest to Save Reserve over a reasonable amount of time. The savings were however paid into the General Fund as a policy to support the revenue budget.

The table below shows the opening balance in the reserve as at 1st April 2016 and the currently approved or anticipated movements on the reserve:

Table - Invest-to Save Reserve		
Balance b/fwd 1st Apr 2016		274
Movements/commitments:		
Local Collective Agreement	(10)	
Car park improvements	(111)	
Property Fund Selection Service	(7)	
Budget Savings Delivery Fund (para 13.6)	(40)	(168)
Uncommitted Balance c/fwd		**106**

16.6 **Service Improvement Reserve** – this is used to finance one-off type investments to support the delivery of the Council's priorities, where the aim is service improvement rather than a financial return. The table below shows the opening balance in the reserve at 1st April 2016 and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
Balance b/fwd 1st Apr 2016		**989**
Movements/commitments:		
Market Hall cafe	(72)	
Linacre Master Planning	(39)	
TPIC/DIC telephony system - rev	(31)	
TPIC/DIC telephony system - cap	(173)	
Northern Gateway	(100)	
HLC Admin space	(46)	
Town Hall restack	(135)	
Car parking improvements	(15)	

Budget Savings Delivery Fund (para 13.6)	(110)	
TPIC/DIC - 2016/17 Repayment	110	(611)
Uncommitted Balance		**378**

16.7 **Property Repairs Fund** - established to even-out the peaks and troughs of property maintenance costs - services pay in a predetermined contribution each year which has been calculated to cover their property maintenance costs over a ten year period. A new ten-year plan is required in 2017/18 which then needs to be reviewed annually and contributions adjusted to reflect any significant changes. A balance of £500k in this reserve is considered to be sufficient, therefore, £430k has been earmarked to finance schemes in the Capital Programme including £95k for replacing the Winding Wheel lifts, £270k for the Town Hall restack and £61k for Chesterfield museum store.

16.8 **Vehicle, Plant & Equipment Fund** - operates as a replacement reserve for major items of vehicle, plant, wheeled bins or equipment. Services pay in annual contributions spread over the estimated useful life of an asset so that when it falls due for replacement the funding is available. The estimated balance on this fund at March 2017 is £273k. Details of future movements on this reserve are included in the General Fund Capital Programme report.

16.9 **Insurance Fund (provision and reserve)** - the Council maintains these funds to cover insurance policy excesses and self-insured risks. In December 2016 we instructed Kerberos Risk Services Limited to review the current level of our Insurance Funds. We are required to review the level of our Insurance Funds every 3 years, the previous review was completed in 2013. The subsequent report from the consultants indicated that we currently need insurance reserves and provisions of £1,390,127 and as at the 31st March 2016 we had insurance reserves and provisions totalling £1,857,429 therefore we have surplus funds of £467,302. However, during 2016/17 we needed £60,000 to cover insurance excesses and self-insurance charges, therefore £407,302 could potentially be transferred to other Earmarked Reserves. The proposal is to use this to reduce General Fund contributions into reserves supporting the budget position in 2017/18 and 2018/19 by £150,000 then £107,000 in 2019/20. The reserve is reviewed every three years with the next one due in 2019.

16.10 **Appendix H** shows that the total of all reserves and provisions are forecast to reduce by £3.3m (£3.1m General Fund and £0.2m DSO's) from £11.0m at the start of 2016/17 to £7.7m by the end of the financial year.

16.11 The reduction in the level of reserves by reducing the amount of cash available for investment has a direct impact on the revenue budget by reducing the amount of investment interest received. It is important that Members appreciate that the earmarked reserves are held for specific purposes. All fund balances will be reviewed again as part of the 2016/17 final accounts process.

16.12 The Joint Crematorium Committee (JCC) on the 12th December 2016 agreed to reduce Revenue Reserves to a minimum working balance of £250,000 releasing £465,000 to shareholders. Operating surpluses are estimated at £356,000 for 2016/17. CBC's share of these distributions is provisionally £452,000 exceeding our budget for 2016/17 of £268,000. This gives a 'windfall' to reserves of £184,000. In addition a further report will be taken to the JCC in March recommending a reduction in the Unallocated Capital Improvement Reserve from £783,000 to £233,000. If agreed the effect of this decision and the above would release to CBC Reserves a sum of £486,000 as a 'one off'. These reserves can then be re-distributed and used to support revenue spend and income generation. The proposal is to put £200,000 into a new Northern Gateway Reserve to cover our 2018/19 potential underwriting of Co-op leases. We also need to ensure our Business Rates Reserves are strengthened if further appeals are successful. New business rates valuations have taken place for 2017 and our reserves were 'depleted' settling GP premises successful claims in 2016/17. Therefore £250,000 should be added to the reserve. The balance of £36,000 would be transferred to Budget Risk Reserve.

17.0 Consultation

17.1 The consultation meeting with the business ratepayers' representatives took place on 28th January 2017. Issues discussed included the changes to the business rates system, the small business rate relief scheme, the Council's budget forecasts and the council tax increase options.

17.2 Consultation with Council Taxpayers took place at a Community Assembly meeting on 11th January 2017. The Council Plan and budget were discussed and council tax increase options.

18.0 Scrutiny

18.1 The Overview and Performance Scrutiny Forum has received budget updates on the budget setting process at its meetings on 22nd November 2016.

19.0 Risk & Sensitivity Analysis

19.1 The budget estimates are 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 issues are described below with further information provided in **Appendix I**.

- **Cuts in Government Grants** – this is a risk facing most public sector organisations. The Final Settlement for 2017/18 will be published and approved by the House of Commons on 22nd February 2017. Indicative figures were provided as part of the provisional Local Government Finance Settlement in December 2016. The changes to the New Homes Bonus grant system has presented a significant drop in income for the Borough. As described in para. 9.5 the system has undergone significant change. The estimated allocation for 2017/18 is £676k and in the MTFP it has been assumed that this will be stepped down to £452k by 2018/19 and decline to £2k by 2020/21.

- **Delivering budget savings** at the required level and at the right time continues to be a major challenge for the Council. Although the Council has a good track record of tackling budget deficits and delivering significant staff costs savings through voluntary redundancy, restructuring and vacancy control, some of the individual savings targets from 2016/17 have not been met (e.g. PPP, terms and conditions, investments etc.). The Council learns from its experience of what has and has not worked well in the past in order to improve the process going forward. Future budget savings proposals are now subject to an individually risk assessed non-achievement factor. Delivering savings is becoming increasingly difficult as the easier options are exhausted, which means that further improvements to the planning and estimating of savings will be required.

- **Investment Interest** - The current Base Rate is 0.25% but there is little sign that the Monetary Policy Committee will start to increase base rates in the foreseeable future unless forecast inflation rises. The assumed gross rate of return on the Council's investment funds in 2017/18 is 0.62%. For each 0.25% that rates actually deviate from the forecast the investment return will increase or decrease by approximately £100k (35% or £35k to the General Fund). The forecast for 2018/19 assumes a further reduction to 0.55% in 2018/19 before recovering to 0.88% in subsequent years but this will clearly be dependent on the pace of the economic recovery. Officers will continue to seek alternative investment instruments in an attempt to improve returns but it should always be remembered that the rule for local government investing is that security of capital is the overriding consideration. Government regulations and CIPFA guidance make it clear that 'security' of capital is the primary consideration, followed by 'liquidity' and then 'yield'.

- **Fees and charges** income – the state of the economy could have a significant impact on the Council's income particularly from areas like car parking, leisure memberships, cultural events, planning fees, land charges, etc. The 2017/18 budget targets for the key income sources are shown in **Appendix F**. Car parking income is the largest single income source. In the medium term car parking income on certain sites is under pressure due to location and competition. Saltergate multi-storey will undergo a significant £4m capital refurbishment programme in 2017/18 and we have budgeted for a loss of £213k in income for 2017/18. It is expected other car parks may receive some of the custom.

- **Property rents** – the state of the economy also impacts on the Council's ability to generate rental income from its extensive industrial, commercial and retail property holdings. Currently occupancy levels remain very high 95%+ and demand for good rental property across Chesterfield is high. The Council continues to invest in its rental properties in terms of: IT, broadband, repairs and maintenance etc.

- **HRA cost sharing** - under the self-financing arrangements it is important to be able to demonstrate that any recharges to the HRA are fair and reasonable.

- **Staff pay** – Local government **pay awards** are outside of the Treasury's control as they are subject to free collective bargaining between the national employers and trade unions through the National Joint Council (NJC). A pay award of 1% has been agreed for 2017/18. Each 1% increases the costs to the General Fund by £140k. The budget incorporates the 1% uplift for 2017/18 and beyond in the operating budgets. A further 1% above the NJC estimate of 1% has also been budgeted for from 2018/19 should pay awards rise to 2%.

- **Energy costs** – the gas and electricity budgets within the General Fund total £775k in 2017/18. The increases in future energy prices are very difficult to forecast. An allowance of 2% per annum has been made in 2017/18 and 3% in future years. Each 1% variance from this provision equates to £7.75k per annum.

- **Insurance costs** – The Council was insured with the Municipal Mutual Insurance Company until 1993 when the Company went into administration. The Company is still dealing with claims, mainly employer's liability claims, related to the period of cover. The Scheme of Arrangement, however, allows the Company to claw back some or all of the claims paid since 1993 if a solvent run-off is not possible. The Company lost an appeal to the Supreme Court about the trigger date for employer liability insurance; the Court ruled that it is the insurer at the date of exposure that is responsible for disease or injury claims. The decision led to the triggering of the Scheme of Arrangement and the claw back provisions. The Council has a provision of £384k (para 16.9 above) to cover future claw back payments as the full extent of the Company's exposure to long-tail occupational disease claims unfolds. The second claw back payment of £137k, based on 25% of past settlements, was paid in April 2016.

- **New Homes Bonus** Grant (NHB) – the budget forecasts a significant decline in NHB following the provisional Local Government Finance settlement announcement in December 2016.

  i. NHB payments would reduce from 6 years in 2016/17 to 5 years in 2017/18 and 4 years for every year from 2018/19.
  ii. A baseline (expected house building before NHB is now awarded) for housing growth is set at an initial baseline of 0.4% for 2017/18 and can be reviewed annually.

  The implication for Chesterfield due to our low house building forecasts (based on historical building and developer challenges around house prices and site conditions) means NHB income will fall from £676,640 in 2017/18 to £2,240 in 2020/21. This is a significant loss of income for the Council outside its control, imposed by Government.

- **Localisation of Business Rates** from April 2013 – the baseline starting point for 2013/14 is intended to ensure that no council is worse off than it would have been if the Formula Grant system continued. For future years the Council will share in any growth in income above its baseline level at a rate of 20% after the Levy payment but will also carry a 40% share of any reduction in income below the baseline up to the Safety Net Threshold (a maximum exposure of £236k in 2017/18 which must be from the Pool if a member of a pooling arrangement). The Council, therefore, now shares the risk of changes to BR income due to new builds, demolition, exemptions and appeals, a risk that previously rested with the Government.

  The liability for Levy payments has been avoided in 2017/18 by the continued operation of the Derbyshire Business Rates Pool. The future of 'pooling' beyond 2017/18 is uncertain.

  Further opportunities to retain a greater share of Business Rate income will be explored as part of the devolution deals before full retention comes into effect in 2020.

  Over the short and medium term there are further developments that are likely to have a negative impact on Business Rate income, including:

  - Schools converting to academies, in line with Government policy, and becoming eligible for 80% mandatory relief;
  - The possibility of NHS Trusts becoming eligible for 80% mandatory relief and the risk of it being back-dated. This has not been factored into the draft budgets at the moment but it has the potential to significantly change our budget position in 2017/18 and all future years. An update will be provided to the Council at the earliest opportunity as this issue develops**.**
  - The new Rating List has been introduced in 2017 which is based on property rental values in 2015 and could create significant shifts. It is not clear at this stage how any significant changes will be softened by transitional measures to phase-in the changes over a period of time.

  In the longer term, the system is due to be 'reset' in 2020 alongside the move to 100% retention. There is, therefore, a risk that some of the retained growth accumulated up to that point could then be lost if the 'tariff' is increased to reflect the higher tax base.

- **Localisation of Council Tax Support** from April 2013 – details of the new arrangements and the measures the Council has put in place to finance the local scheme are detailed in paragraphs 11.7 to 11.10. Previously the national scheme was fully funded by the Government and the Government therefore carried the financial risks. Under the new, localised arrangements, the Council together with the other precepting bodies carries the risk of the tax base reducing if the number of claimants increases and the risk of fund deficits if the collection rate falls below the estimated level.

- **Universal Credit** – Universal Credit will replace all current means tested working age benefits, including housing benefit which is currently administered by local authorities. It will be introduced on a phased basis in Chesterfield from November 2017, with the end date currently uncertain. The change could have significant implications for benefits staff and systems. For the General Fund the financial risks relate to the loss of the administration function, possible redundancy and/or contract penalties, residual costs, etc. There is insufficient information available at this time to be able to assess the likely financial implications. The medium term financial plan assumes an 8% reduction in administration income. There is also a significant risk for the Housing Revenue Account as rent arrears could increase when housing benefit is paid directly to tenants and monthly in arrears. The Council will be working with DWP and Arvato in 2017/18 to manage the risks and changes needed.

- **Pension Costs** – The latest review of the Pension Fund was undertaken in 2016 and sets the revised employer contribution rates to apply for the three years commencing April 2017. The revised rates have been built into the medium term forecast. The next review is due in three years' time. The MTFP includes a provision of £140k per annum for pension costs increases.

n) **Major Capital Schemes** - there are currently a number of major developments planned in the Borough where the Council is providing financial support or guarantees. The Council works closely with Sheffield City Region (SCR) on these projects. e.g. Waterside (supported by a £2.4m GPF loan and £2.6m SCR grant), Northern Gateway (supported by £5.5m SCR grant) and Peak Resort (supported by a £2.9m SCR grant). The Council is providing an £840k guarantee for rental units underwriting the Coop development over 5yrs from 1 April 2018, etc. The Council has also commenced in Autumn 2016 a £2.7m capital programme to refurbish the Town Hall, which will be completed in early 2018.

o) **VAT** – the Council can only recover the VAT incurred on the provision of exempt activities, such as the letting of premises or educational/coaching services, if that VAT does not exceed a prescribed level (currently £419k). If the level is exceeded then none of the exempt VAT, not just the excess amount, can be reclaimed. The construction of the new Queen's Park Sports Centre in 2015/16, with the College a major user of the facility, means the Council's exempt proportion has increased. There is a risk that any further significant capital expenditure in an area that includes exempt activities could cause the limit to be breached

20.0 Business Rates

20.1 Although the Council is responsible for the collection of business rates and retains a proportion of the income, the rate multiplier is set by the Government. There are two rate multipliers which have been announced as;

- The 'small business' rate - A new rates listing has been produced which will be effective from the 1st April 2017 and the 'small business' rates multiplier has been set at **46.6p** for 2017/18 (48.4p in 2016/17).
- The non-domestic rating multiplier – is the small business multiplier plus an adjustment to fund the estimated cost of the small business rate relief scheme. The supplement for 2017/18 is 1.3p giving a multiplier of **47.9p** (49.7p in 2016/17).

20.2 In his Autumn statement in November 2016 the Chancellor announced changes affecting a number of reliefs including:

- <u>Small Business Rate Relief</u> –The Government will permanently double Small Business Rate Relief (SBRR) from 50 per cent to 100 per cent and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100 per cent relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all - a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief. The Government will increase the threshold for the standard business-rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate. This will reduce business rates for many small businesses - including some high-street shops.

  The Council receives a S31 grant from central government which fully funds the impact of the reduction in business rate income arising from the small business rate relief. For 2017/18, the grant is estimated to be £752k

- <u>Retail Relief and Reoccupation Relief</u> funding has now ceased. The Council cannot afford to continue with the schemes so it needs to formally close them down. The Retail Relief scheme provided a £1,500 discount for all retail premises including, pubs, cafes and restaurants (but excluding banks and betting offices) with a rateable value below £50,000 in 2015/16. Reoccupation Relief provided a 50% discount for up to 18 months where a ratepayer occupies an empty property for retail purposes between April 2014 and March 2016 where that property had been empty for a year or more.

21.0 Other Local Council Taxes

21.1 The special items to be added to the tax in **parished areas** are:

- **Staveley Town Council -** Band 'D' tax increased by 1.8% to £90.21 (£88.64 in 2016/17); &
- **Brimington Parish Council** – Band 'D' tax increased by 1.9% to £21.66 (£21.25 in 2016/17).

21.2 **Derbyshire County Council** has agreed on 8th February 2017 to increase its council tax by 3.99% to £1,211.66 (£1,165.17 in 2016/17).

21.3 **Derbyshire Police & Crime Commissioner** set its precept and council tax on 17 February 2017- the Band D tax will be £180.60, an increase of 1.99% (£177.07 in 2016/17).

21.4 **The Derbyshire Fire** and Rescue Authority set its precept and council tax on 23rd February 2017 – the Band D tax will be £72.58 an increase of 1.98% (£71.18 in 2016/17).

21.5 Details of the council taxes for each major preceptor and by each tax band will be calculated once all of the precepts are received and the table in **Appendix K** will be completed.

22.0 Calculation of Expenditure

22.1 The calculation of expenditure required under Section 32 of the Local Government Finance Act is shown at **Appendix J**.

23.0 Legal Implications

23.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Before setting the level of the council tax the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies, any deficit estimated to be brought forward from previous years, and any amounts required to be transferred between funds. The council tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the income and expenditure account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

24.0 Chief Financial Officers Assurances

24.1 The Local Government Act 2003 (section 25) requires the Chief Financial Officer (CFO) to report on the robustness of estimates and the adequacy of financial reserves when the statutory calculations to determine the Council Tax are reported. The CFO is the officer responsible for the administration of the Council's financial affairs for purposes of Section 151 of the Local Government Act 1972.

Robustness of estimates – subject to the risks highlighted elsewhere in this report, the Director of Finance & Resources is satisfied that the estimates are based on the best available information and that procedures are in place to ensure the estimates are accurate and reliable. Budget responsibility is devolved to service managers who are best placed to complete the budget working papers. The central Accountancy Team co-ordinate the budget process and check through all budget working papers. The Council's procedures, experienced staff and approach to risk management should minimise the inherent risks and uncertainties in the forecasting process.

The achievement of the planned budget savings targets and the remaining deficits, present a challenge for the Council. The Council has a proven track record for delivering significant savings, for example;

- 2013/14 - from an original savings requirement of £868k to a revised <u>surplus</u> of £193k.
- 2014/15 - from an original savings requirement of £347k to a revised <u>surplus</u> of £40k.

- 2015/16 – from an original savings requirement of £680k to a surplus of £225k.
- 2016/17 – from an original savings requirement of £1,266 to an estimated surplus of £105k.

A plan of savings proposals for 2017/18 has been developed to cover the deficit of £209k. The real challenge will be in in developing the savings plans required for 2018/19 and beyond. Management arrangements have to be put in place for each of the projects within the plan.

Budgets will continue to be monitored on a monthly basis throughout the year so that any required corrective action can be taken at the earliest opportunity and the medium term forecasts will be continually updated as part of that process.

24.2 **Level of reserves** - details of the Council's reserves are provided in Section 16 above and in **Appendix H**. The General Fund working balance is being maintained at £1.5m to recognise the financial risks the Council currently faces particularly in relation to Business Rate income. The updated Budget Risk and Sensitivity Analysis in **Appendix I** supports the minimum working balance of £1.5m.

In addition to the Working Balance the Council could also use the £378k uncommitted balance in the Service Improvement Reserve to support the revenue budget if required. It is important to remember, however, that reserves can only be used once and they, therefore, can only provide a short term solution to any funding shortfall.

The policy on the use of reserves will, therefore, continue to be to use earmarked reserves for their intended purpose with surplus reserves being used for investment in the Council's priorities or for transformation schemes which are designed to produce on-going revenue budget savings. Indeed, the reserves have been used quite extensively over recent years to invest in services in order to deliver longer term efficiency savings.

The reserves have declined from 2016/17 but are still considered adequate for 2017/18 (subject to the decision on the eligibility of NHS Trusts for 80% mandatory business rate relief or other significant business rates appeals). Also, the position in future years will depend on the Council's success in delivering the required budget savings.

The Council also maintains a number of earmarked reserves for financing capital expenditure and equalising expenditure between years. The balances in these other reserves are considered adequate for the medium term.

HRA - The Council has set a higher minimum working balance of £3.0m for its Housing Revenue Account to recognise the increased risks it carries under the new self-financing arrangements from April 2012. The HRA budget forecast for next year shows that this balance can be achieved.

25.0 Conclusions

25.1 2016/17 - at the start of the financial year the budget indicated that the Council would make savings of £680k in the year to produce a balanced budget. In the summer the Council was projecting a year end budget deficit of £236k this fell to £185k by the end of 2016. Services continued to operate well in terms of income projections against budget (leisure centres, business units, theatre, winding wheel, some car parks) and costs were controlled. A number of restructurings took (e.g. Spirepride) place and voluntary redundancies continued to reduce the Council's wage bill. The Derbyshire business rates pool delivered a 'windfall' £450k against a budget of £250k at the end of 2016. This enabled the budget to come into balance more quickly in the final quarter of 2016/17. The latest revised budget forecast shows that despite the failure to deliver on some of the savings proposals, other income and budget savings more than compensated, producing an estimated budget surplus of £105k.

25.2 2017/18 – The Council faces a reduction in its Settlement Funding Assessment (RSG/Business Rates Baseline) of £0.6m in 2017/18. To help offset these and other pressures there are plans to increase our income from Council Tax and operations and to deliver savings of £238k in year to achieve a balanced budget.

The budgets have been prepared on the assumption that the Council takes the option to increase the Council Tax by £5 per annum for a Band 'D' property. This has provided an additional £57.6k above the 1.99% limit. It is important for the long term financial sustainability of the Council that it takes every opportunity available to it to increase its tax base. Even after the £5 increase, the Council will still be required to deliver a package of planned savings to avoid a budget deficit in 2017/18.

Although the Council has a good track record of delivering savings, the challenge of implementing savings on this scale and within such a tight timescale should not be underestimated. The Council does have reserves which could be used to bridge a short term deficit but, given that the deficit forecasts are increasing year-on-year and the fact that reserves are declining and can only be used once, the aim must be to find the required savings within the financial year. After many years of funding cuts finding savings is becoming increasingly more difficult.

25.3 Medium term – The deficit forecasts for future years get progressively worse due to cuts in Government funding and the loss of NHB. There is, however, an expectation that Councils will be able to increase their Business Rates tax base to boost their income but this is limited. Business Rates income is an increasingly important element of the Council's income so it is important that the tax base grows and that the option of "Pooling" continues to be available in future years. Based on the current savings plans and forecasts, the Council should be able to deliver the 2017/18 budget savings. However the savings required in 2018/19 of £458K and £1.2m in 2019/20 and beyond will be more difficult to implement. The deficits in later years continue to grow as funding cuts have reduced income more quickly than costs are falling. We are therefore still locked into a sustained period of budget and staffing reductions. Effective arrangements will have to be put in place to ensure that not only are the planned savings in the short term delivered but also that work continues to identify and implement further savings that will involve reducing the non-statutory services provided in readiness for later years. Over the five-year period of the Medium Term Financial Plan cumulative savings of £1.7m must be delivered.

25.4 The medium term forecast shows that the Council continues to face significant financial challenges in the years ahead and all the indications are that this is likely to continue over the longer term, through to 2021. The Council's ability to deliver discretionary services will inevitably come under threat over the next few years due to the funding reductions. Whilst the Council has a good track record of delivering budget savings, the task is getting increasingly difficult. It is evident that difficult spending decisions are going to have to be made by Cabinet/Council in 2017 and that the Council will no longer be able to continue to provide the breadth and quality of discretionary services that it currently offers.

26.0 Alternative Recommendations

26.1 To propose alternative budget allocations and/or council tax level.

27.0 Recommendations

27.1 **That Full Council:**

27.1.1 Approves the revised budget for 2016/17 (Section 5).

27.1.2 Notes the Local Government Finance Settlement (Section 7).

27.1.3 Notes the Collection Fund and the Tax Base forecasts (Section 11).

27.1.4 Approves the portfolio budgets and the overall revenue budget summary for 2017/18 (Section 13 and Appendix A).

27.1.5 Delegates authority to the Director of Finance & Resources in consultation with the Leader, Deputy Leader and Chief Executive to review what is required to ensure that maximum opportunity is taken from the flexibility available to use capital receipts for revenue purposes where such investment will lead to budget savings (paragraphs 13.8).

27.1.6 Notes the budget forecasts for 2017/18 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

27.1.7 Approves the growth request of £100k for an HS2 project officer to be funded from the Service Improvement Reserve (para 13.6).

27.1.8 Approves the estimates of reserves including:

a) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).

b) Transferring from the Crematorium Capital Improvement & Revenue Reserves subject to JCC approvals in March 2017 £200k to a new Northern Gateway reserve to support underwriting the Jomast Coop development in 2018/19 and £250k into Business Rate Risk Reserve. Further explanation is set out later in the report (para 16.12).

c) Using £467,302 Insurance Reserve surplus funds as identified by our consultants Kerberos Risk Services Ltd in their December 2016 review, identifying we currently need insurance reserves and provisions of £1,390,127 and as at the 31st March 2016 we had insurance reserves and provisions totalling £1,857,429. Withholding £60,000 to cover insurance excesses and self-insurance charges, £407,302 can be used to reduce General Fund contributions into reserves, therefore supporting the budget position in 2017/18 and 2018/19 by £150,000 then £107,000 in 2019/20.

27.1.9 Notes the budget risks and sensitivity analysis (Section 19).

27.1.10 Approves the Cabinet's recommended £5 Council Tax increase for 2017/18.

27.1.11 Approves the 2017/18 Council Tax Requirement and financing (Appendix J).

27.1.12 Notes the Director of Finance & Resources assurances (Section 24).

28.0 Reasons for Recommendations

28.1 In order to meet the statutory requirements relating to setting a budget and the council tax.

Decision information

Key decision number	**693**
Wards affected	**All**
Links to Council Plan priorities	To provide value for money services

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.
Budget working papers

Appendices to the report	
Appendix A	General Fund Revenue Budget Summary
Appendix B	Savings Targets
Appendix C	Budget Strategy
Appendix D	Financial Strategy
Appendix E	Fees & Charges Policy
Appendix F	Analysis of Fees & Charges Income
Appendix G	Revenue Grants
Appendix H	Reserves & Balances
Appendix I	Budget Risks & Sensitivity Analysis
Appendix J	Section 32 Statement
Appendix K	Council Taxes

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