

For publication

General Fund Revenue Budget Summary

Meeting:	Cabinet
Date:	19 th December 2017
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance & Resources

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1.0 Purpose of report

- 1.1 To provide Cabinet with an update on the development of the General Fund Revenue Budget for 2018/19 and future years.

2.0 Recommendations

- 2.1 To note the updated budget projections for 2017/18 and future years (**Appendix A**).
- 2.2 That work continues to refine the draft estimates and to develop budget saving proposals.
- 2.3 That the use of earmarked reserves set out in Appendix B is approved.
- 2.4 To note the amendment to the Minimum Revenue Provision (MRP) policy subject to external audit approval (Section 8).

3.0 Background

- 3.1 The Council's Budget Strategy is to set a sustainable and affordable budget over the medium term. The budget forecasts included in this report cover the current and five future financial years.
- 3.2 The portfolio budget reports are included elsewhere on the agenda. This report brings them together with the non-portfolio items to produce an overall summary (**Appendix A**) which shows the latest surplus/deficit forecast for each financial year. The budgets are a first draft as the Local Government Provisional Finance Settlement has not yet been announced and the Business Rates income assessment cannot be completed until January 2017.
- 3.3 The Chancellor's **Autumn Statement** on 22nd November made very few changes that would impact on lower tier authorities with spending plans almost entirely unchanged. No further cuts to Local Government funding for 2018/19 were announced and no changes to the 4 year RSG settlement figures advised last year are expected.
- 3.4 There was no mention made about the referendum limit for council tax increases in 2018/19. It seems likely that the regime for 2017/18 will be continued, which for district councils means a referendum will be required for increases of 2% or more. Chesterfield Council has the option to increase the Council Tax by £5 per annum (equivalent to an increase of 3.23%) or 2%.

4.0 Budget Assumptions and Forecasts

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

Budget Assumptions				
	2018/19	2019/20	2020/21	2021/22>
Pay inflation	2%	2%	2%	2%
Energy inflation	3.5%	3%	3%	3%
Business rates increase	3.7%	3.5%	3.0%	3.0%
Vacant posts allowance	£150k	£150k	£150k	£150k
Council tax increase	£5	£5	1.99%	1.99%
Fees & Charges Increase Av	+3%	+3%	+3%	+3%
Investment returns	0.58%	0.85%	0.85%	0.85%

- 4.2 The updated Medium Term Budget Forecast is shown in **Appendix A**. It must be pointed out that many of the figures in

the Financing section (the second page of the appendix) are provisional estimates. Unfortunately, some of these figures (e.g. Retained Business Rates Growth and Pooling) are **significant sums which could be subject to wide variations**. At this stage it has not been possible to provide accurate forecasts for these due to:

- a) The Provisional Grant Settlement not being announced and completion of the NNDR1 in January; and
- b) The ongoing uncertainties caused by outstanding Business Rates appeals.

The forecasts at this stage, therefore, come with a very significant health warning. The forecasts will be updated over the next few weeks as further information becomes available and any significant changes reported to the Cabinet at the earliest opportunity so that any corrective action can be considered before the final budget report is submitted to the full Council in February 2018.

5.0 2017/18 Revised Budget

- 5.1 At the start of the year, the forecast deficit was £209k which was to be met either from generating savings or reserves. During the year savings have been achieved and have been reported to Cabinet on a quarterly basis. At the end of Quarter 2 the forecast for 2017/18 was a surplus of £90k.
- 5.2 The latest revised budget for 2017/18 (**Appendix A**) shows a projected surplus of £776k. The detailed Portfolio budget figures are included elsewhere on this agenda.
- 5.3 The surplus has increased as follows:

	(£000's)
Quarter 2 Forecast Surplus	90
Vicar Lane Principal Rent	(115)
MRP Policy Change (Pending Approval)	243
NNDR Pooling	216
Crematorium Increased Surplus	32
Spirepride Increased Surplus	303
Other Movements	7

- 5.4 The “financing section” of the budget, showing income from Council Tax and Government grants, generally remains fixed at the original budget estimate. However, elements of the retained business rates income are subject to in-year changes, namely the Business Rates Pooling gain and the Levy payable to the Government. At this stage the Council’s pooling gain is based on Quarter 2 estimates but this revised estimate is subject to confirmation once all authorities have completed their business rates forecasts which they must do by the end of January 2018.
- 5.5 In the remaining few months of the financial year we will continue to monitor budgets and report any changes so that they can be included in the final budget report which will go to the Council in February 2018.

6.0 Budget Forecast 2018/19

- 6.1 The forecast for 2018/19 in **Appendix A** shows a surplus of **£166k**. The budget assumes that the full amount of the estimated New Homes Bonus allocation (£462k) will be used to support the budget and that the Derbyshire Pooling gain remains at the £300k level. The Business Rates income forecast will require revision before the final budget is brought to Council in February 2018.
- 6.2 The Living Wage Foundation proposals to increase the living wage are included on an ongoing basis in the budget.
- 6.3 The Spirepride business model predicts savings of £610k reflecting the full roll out of the restructuring activities introduced during 2016/17 and future income generation.
- 6.4 We have budgeted pay inflation of 2% in 2018/19. We have also budgeted for ongoing staff vacancy savings.
- 6.5 The Government RSG Funding Settlement has not yet been confirmed but the expectation is that it will not change significantly from figures announced last year. The Business Rates Pooling Gain figure (£300k) is also provisional at this stage and could be

subject to considerable variance depending on the final business rate income forecasts for each of the Derbyshire districts.

- 6.6 We have yet to incorporate the Cabinet approved Car Parking and Sports Venues fees and charges increases due in early 2018. These are estimated in Appendix A under 'Fees & Charges (car parking/sports and leisure estimate)'. Once approved they will be included in Portfolio budgets.

7.0 Medium Term Forecasts

- 7.1 The draft estimates in **Appendix A** include the four year funding settlement figures published last year. Retained business rate income is forecast to grow steadily in future years. The assumption on council tax increases in future years is for £5 per annum (an increase of 3.2%) until 2019/20 and to rise by 1.99% per annum each year thereafter.
- 7.2 Business Rates Pooling - It has been assumed that the £300k Derbyshire Pooling gain will continue in all years. The outcome of the Derbyshire wide application to be a pilot authority for 100% business rates retention in 2018/19 is not yet known and has not been included in the budget figures.
- 7.3 The latest forecast deficits are £466k in 2019/20 increasing to £1,418k by 2022/23. This is before the impact of any recurring savings proposals which are yet to be agreed.
- 7.4 The forecasts will be updated when the settlement figures are finalised and as other variances are identified. Growth from business rate income will be reviewed in January 2018. The scale of the forecast deficits is such that further significant savings will have to be found in future years. We need to formulate plans over the coming months to enable savings to be delivered in 2019/20.
- 7.5 Our future forecasts are also dependant on our core trading income streams holding up (car parks, leisure, business rents, winding wheel etc.). These income lines are sensitive to changes in the market.

8.0 Minimum Revenue Provision

- 8.1 There is a requirement to set money aside each year in the General Fund to repay debt as it becomes due. This is known as the Minimum Revenue Provision. Prior to 2008, the method of calculating this provision was prescribed by Regulation, however since then authorities have had more flexibility in the method of calculation. The over-riding requirement is that the calculation is prudent.
- 8.2 We have recently asked our Treasury Management advisors to review our method of calculation. Their recommendation is to move from our current method of taking 4% of the Capital Financing Requirement to using a 2% annuity rate method over a period of 40 years. This is considered to be more prudent than the current method as over a 40 year period we will have put aside sufficient resources to meet existing borrowing commitments. The 2% figure would correspond with the Monetary Policy Committee's inflation target set by Government.
- 8.3 The effect of this change would generate savings over the life of the medium term forecast before they are recouped in the later years and have been built into the figures in Appendix A.
- 8.4 The suggested change to the MRP policy will be included in the Treasury Management Strategy Statement considered by Council in February 2018.

9.0 Reserves

- 9.1 The **General Working Balance** was £1.5m at the start of this financial year. The on-going financial risks associated with the business rates retention scheme and other funding sources would suggest that it would be imprudent to consider reducing the level any further until a more stable financial footing is established.
- 9.2 In addition to the General Working Balance the Council maintains a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements. The adequacy and use of these reserves has been systematically reviewed and a number of transfers have been identified to create an ICT Digital Innovation Reserve. This reserve will be used as a one off to support additional ICT investment in 2018/19. The revised reserve position is shown in Appendix B.

- 9.3 Given the size of the budget deficit forecast for 2020/21 and the lead-in time inherent in many savings initiatives, the Council needs to press ahead with budget savings.

10.0 Conclusion & Next Steps

- 10.1 This report presents the first draft of the budget for 2018/19 but there are some elements of the budget that are still to be confirmed and other budget variances could be identified during the coming weeks. The latest forecast shows deficits in each financial year from 2019/20 which are increasing as reductions in government funding continue.
- 10.2 The Council is also developing plans for significant investment in it's ICT from 2018/19 under a 10 year plan to ensure it remains robust and future proofed. This expenditure will increase the deficits and put further pressure on the need to balance the budgets. Once the expenditure, both capital and revenue, is approved by Cabinet it will need to be included in the Medium Term Financial Forecast. The Council is also developing a 10 year asset management plan. Many assets will require investment and these costs will add to future borrowing and the deficit positions.
- 10.3 The full Council will approve the final budget and the Council Tax for 2018/19 at its meeting on 22nd February. The Cabinet will have to agree its final budget proposals ahead of the Council meeting. In the meantime, the budget forecasts will continue to be updated as the Provisional Local Government Finance Settlement proposals and other budget savings/variances are confirmed. The Budget Workshop sessions for Cabinet Members and the Corporate Management Team will continue to meet in the run-up to setting the budget in order to consider the updated forecasts and agree further savings proposals for inclusion in the final budget.

11.0 Risk Management

- 11.1 There are a number of significant risks inherent in any budget forecasting exercise and the risks increase as the period covered increases. The most significant budget risks at the moment include:

- Business rate pooling opportunities and threats.
- Business Rate appeals, valuation changes, etc.
- New Homes Bonus allocations.
- Escalating energy prices and general cost inflation.
- Achieving income targets for rents, fees, charges and interest.
- Delivering the required budget savings on time and to the value required. It is important that a rigorous risk assessment is undertaken for each saving proposals before they are included in the final budget report.
- The outcome of Brexit and the impact on the Chesterfield economy.
- The introduction of Universal Credit – full implementation. There are unknowns in terms of the extent, timing and funding of these changes.

These and other financial risks will be evaluated more fully in the Budget Risk & Sensitivity Analysis, which will be included in the final budget report in February 2018.

12.0 Legal and data protection implications

- 12.1 It would be unlawful for the Council to set a deficit budget. Section 33 of the Local Government Finance Act 1992 requires the Council to set a balanced budget.

13.0 Equalities Impact Assessment (EIA)

- 13.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision later in the process might well require EIA's specific to those options.

14.0 Recommendations

- 14.1 To note the updated budget projections for 2017/18 and future years (**Appendix A**).
- 14.2 That work continues to refine the draft estimates and to develop budget saving proposals.

- 14.3 That the use of earmarked reserves set out in Appendix B is approved.
- 14.4 To note the amendment to the Minimum Revenue Provision (MRP) policy subject to external audit approval (Section 8).

15.0 Reasons for Recommendations

- 15.1 To keep Members informed on the development of the budget proposals for 2018/19 and to provide an update on the medium term financial forecasts.

Decision information

Key decision number	767
Wards affected	All
Links to Council Plan priorities	To provide value for money services

Document information

Report author	Contact number/email
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	General Fund Revenue Estimates Summary
Appendix B	Movements on Reserves & Provisions