For publication

2018/19 Budget & Medium Term Financial Plan (J000)

Meeting:	Cabinet Council
Date:	20th February 2018 22nd February 2018
Cabinet portfolio:	Deputy Leader
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 2018/19.

2.0 Recommendations

That Cabinet recommends to Council that it:

2.1 Approves the revised budget for 2017/18 (Section 5).

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

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

2.4 Approves the portfolio budgets and the overall revenue budget summary for 2018/19 (Section 13 and Appendix A).

2.5 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).

2.6 Notes the budget forecasts for 2019/20 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

2.7 Approves the growth request of £10k for each of the next two years to enable implementation of the Council's Skills Action Plan (para 13.6).

2.8 Approves the estimates of reserves including:

a) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).
b) The phasing of the recommended £200k insurance provision increase over 5 years (para 16.10).
c) The creation of an ICT Digital Innovation reserve to fund the cost of ICT development (para 16.11).

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

2.10 Increases the Council's share of Council Tax by £5 for a Band 'D' property in 2018/19.

2.11 Approves the 2018/19 Council Tax Requirement and financing (Appendix J).

2.12 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 Housing Revenue Account (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 over the 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.

The Local Government Finance Settlement on 19th December 2017 confirmed:

- Our 4 year RSG settlement funding will fall from £0.8m in 2018/19 to £0 in 2020/21.
- New Homes Bonus (NHB) funding as revised in 2016 will continue to be granted for a term of 4 years in 2018/19 and beyond. In addition the 0.4% base line (based on council tax property numbers) introduced in 2016 is maintained, which means that NHB funding will only be available for new build properties and/or bringing back into use empty properties

above the expected baseline number. The implications for Chesterfield are set out in paragraph 9.3 of this report.

3.5 The Local Government Finance Settlement also announced that the Derbyshire Councils Business Rates Pool (including Derby City) bid to MHCLG in autumn 2017 to become a 100% Business Rate Retention pilot for the financial year 2018/19, had been successful alongside 9 other bids. Further information on the implications of this are set out in paragraph 7.2 of this report.

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 Council Tax must be set at the Council meeting on 22nd 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 MTFP.

5.0 Revised Budget 2017/18

5.1 The Council approved the original budget for 2017/18 on 23rd February 2017. The original budget allowed for a reduction in General Government Grant (Settlement Funding) of £0.6m and a £63k change in retained Business Rates Baseline income. It was also agreed that the Council Tax be increased by £5 to £154.89 for a Band 'D' property. After allowing for planned savings this left a deficit of £209k to be met from other savings to be identified in the year, increased income or from reserves.

5.2 2017/18 has proved another challenging year in terms of budget management but significant savings totalling £1,206k have been made. There has been active management of 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 forecasts at each reporting stage:

Table – 2017/18 Surplus / (Deficit) Forecasts Through the Year

Date	Net surplus / (deficit)	Change on previous
Feb 17 – approved budget	(209)	-
Jul 17 – end of quarter 1	(258)	(49)
Nov 17 – end of quarter 2	90	348
Dec 17 – draft revised budget	776	686
Feb 18 – this final budget report	976	200

The revised portfolio budgets for 2017/18 were reported to the Cabinet on the 19th December as part of the first draft General Fund 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 2017/18 shows an estimated surplus of £976k. (**Appendix A)**.

5.3 The revised budget assumes a contribution of £516k from the Derbyshire Business Rate Pool. This is based on the figures supplied by each of the Pool members to the end of December 2017.

5.4 Strict budgetary control will continue to the end of the financial year with the final surplus transferred to the Budget Risk Reserve at the end of the year.

6.0 2018/19 Funding Sources

6.1 Government policy is moving local government to become self-sufficient in funding by 2020/21. Firstly Revenue Support Grant is being phased out and will be £0 by 2020/21 for Chesterfield Borough Council. Secondly Councils will need to rely more on generating their own trading income and this is something Chesterfield is investing in. Thirdly Councils have been given the ability to raise Council Tax by 3% (previously capped at 2%) or by £5 in 2018/19 and 2019/20. Finally Government has made an announcement indicating it plans to move local government to 75% business rates retention funding by 2020/21 and eventually 100%. A number of 100% business rate retention pilots exist nationally and Chesterfield has been successful in the December Local Government Finance Settlement in becoming one of the new pilots for 2018/19 along with the authorities who form the Derbyshire pool and Derby City Council. 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 for 2018/19, on the 19th December 2017. Details of the Final Settlement are to be published and approved by the House of Commons on 7th February 2018.

7.2 In the budget for 2018/19 we have to date not factored in to our estimates additional Business Rates growth from being a 100% Business Rate Retention Pilot. Until we have further information from MHCLG and been able to commission analysis using our NNDR1 returns we cannot with a good degree of accuracy determine our Business Rates growth position (with RSG being £0) for 2018/19. Once we are able to agree this position with the Derbyshire Pool, any uplift will be treated as a one off in year gain to reserves. The Government has also announced that as a 100% Business Rate Pilot there is a no detriment clause so we will be no worse off than under our current funding arrangements.

7.3 The Settlement provided final figures for 2018/19 but also included indicative figures for the following two years. The Government had offered any council that wishes to take it up a four-year funding settlement to 2020/21. Chesterfield Borough Council took up the offer on 14th October 2016 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 stated 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.

7.4 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.

	2017/18	**2018/19**	**2019/20**	**2020/21**

Revenue Support Grant	1,239	859	434	0
Business Rates Baseline	3,150	3,251	3,367	3,451
Settlement Funding Assessment	**£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.

7.5 **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.7.4 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	100%	**21,797,109**

total		
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 is linked to RPI (Retail Price Index). The increases for 2018/19 are as follows:

The Small Business Rates multiplier (SBRM) has increased from 46.6p to 48.0p in 2018/19. The Council's tariff payment for 2018/19 has increased to **£13,733,487** (£10,887,543 in 2017/18) though this does also reflect further adjustments for being a 100% Business Rates Retention Pilot in 2018/19.

8.3 The actual level of income from Business Rates to be included in the budget for 2018/19 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 22nd January 2018. The NNDR1 return shows an estimated Net Yield of £36,228,448 with the Council's 50% share as £18,114,224. The Council's share is then reduced by the **tariff** payment of £13,733,487 leaving £4,380,737. At the same time the Council will qualify for £1,625,969 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.).

8.4 There is also a **Safety Net** mechanism in place to protect authorities from excessive decreases in BR income below their BR Baseline 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 3% of its BR Baseline Funding. The Council's **Safety Net threshold is £3,981k** (i.e. £4,104,263 x 97%). This means that the Council's share of BR **income could fall by £123k** below its BR Baseline Funding level of £4,104k before it qualifies for a safety net payment. If a Council is a member of a Business Rates Pilot it is the Pilot 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 from the 2010 valuation. A further revaluation has since been carried out by the VOA, which became effective from the 1st April 2017. This has created additional uncertainties around estimating the likely impact of future rating appeals arising from this revaluation and the new "Check Challenge Appeal" system. As a result we have estimated that we will have £2.3m of outstanding appeals at the end of 2017/18 and due to the new 2017 rating list an additional £1.8m of appeals in 2018/19. The projected deficit on the BR account for 2017/18 is £720k. The Council's share of the deficit, at 40%, equates to £288k and this has been included in the budget for 2018/19.

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 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	Actual	662,901	-62,699	-9%
2017/18	Estimate	606,940	-55,961	-8%
2018/19	Estimate	576,590	-30,350	-5%

For 2018/19 only the element funded by the MHCLG has been confirmed.

The budget assumes a reduction in grant of 5% in 2018/19 to reflect the roll out of universal credit. 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 Local Government Finance settlement on 19th December 2017 re-affirmed that

- The NHB payments would continue to be paid on a 4 year rolling basis in 2018/19 and for every year thereafter.
- The baseline for housing growth would remain at 0.4% subject to annual reviews.
- The Government will look at the case for withholding NHB from areas not planning for or delivering on housing growth from 2018-19.

The grant confirmed by DCLG for 2018/19 is £461,645.

New Homes Bonus (NHB)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
NHB	690,243	461,645	307,339	11,480	3,080	0

The Council in recent years, has not seen new properties built or empty properties brought back into use in large numbers; figures are in the 100-200 net additional homes annually. Based on this, it is difficult with any certainty to project that the number of new properties will exceed the new baseline 0.4% of council tax band properties in order to get NHB. Therefore being prudent, we have assumed no new NHB from 2019/20 and the gradual decline to £0 NHB funding by 2022/23.

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. Fees and 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 2018/19 the budget includes £9.7m (£9.5m in 2017/18) from fees and charges compared to only £4.6m from the council tax. The main income sources and the assumed increases for 2018/19 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 09th January 2018. There is an estimated surplus balance of £523,799 at the end of March 2018. The surplus is shared amongst the major precepting authorities; the Borough's share is £54,318 (10.37%).

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 22nd January 2018 as:

Tax Base – Band 'D' Properties

Area	2017/18	2018/19	Increase / (Decrease) No.	Increase / (Decrease) %
Brimington Parish	2,276.05	2,329.75	53.70	2.4
Staveley Town	4,087.94	4,101.13	13.19	0.3
Chesterfield Area	22,143.93	22,338.22	194.29	0.9
Total	28,507.92	28,769.10	261.18	0.9

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 2018/19 has been set at 3% but with a concession for district councils which allows them to increase their council tax by a maximum of £5 or 3%. The £5 increase is equivalent to an increase of 3.23%.

11.5 **Evaluation of the Options** – the table below compares the options of either increasing the council tax by 2.99% or £5:

Table - 2018/19 Council Tax Options

	Yield from increase £	Band 'D' tax £	Band 'A' tax £
2017/18 Council Tax	0	154.89	103.26
2.99% increase	133,201	159.52	106.35

£5 pa on Band 'D'	143,845	159.89	106.59
Difference £5 v 2.99%	**10,644**	£0.37pence pa	£0.24 pence pa

For local tax payers the impact of a £5 per annum increase on the Band 'D' tax, compared to the current council tax, is 3.23% 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 2018/19 and 2019/20. The cumulative gain over the two years, compared to the 2.99% alternative, is therefore £17k.

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 2018/19 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 5th December 2017 the Council agreed to continue with the 2017/18 Council Tax Support Scheme in 2018/19. The measures designed to recover some of the cost of the scheme were grouped into two packages as follows:

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

The second package of measures relates 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:

Budget Assumptions				
	2018/19	**2019/20**	**2020/21**	**2021/22>**
Pay inflation	2%	2%	2%	2%
Energy inflation	3.5% + £50k	3% + £50k	3% + £50k	3% + £50k

Business rates increase	3.7%	3.5%	3%	3%
Vacant posts allowance	£150k	£150k	£150k	£150k
Council tax increase	£5	£5	1.99%	1.99%
Settlement Funding (RSG & BRB)	-6.5%	-8.6%	-9.8%	+2%
Fees & Charges Increase	3%	3%	3%	3%
Employer service pension contribution rate	14.2%	14.2%	14.2%	14.2%
Employer National Insurance Increase	2%	2%	2%	2%
Investment returns (gross)	0.58%	0.85%	0.85%	0.85%

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 19th December 2017, a number of actions have been implemented in order manage budgets; the actions include:

- **Budget Challenge sessions** with all CMT members and relevant service managers in January 2018;
- **Continuing control** on expenditure and filling vacant posts;
- **Budget Action Plan** – a plan is being developed to take forward 3% productivity/efficiency targets following member and senior officer workshops across service lines and a number of services are developing 'zero subsidy' plans. New income raising initiatives will be explored. Voluntary Redundancy remains a core cost saving proposal. Decisions on IT investment have yet to be finalised and approved by Cabinet and have not been included in these budgets. A number of consultancy reports are developed with costings. A significant ongoing revenue cost is proposed as well as capital to enhance IT infrastructure and services. (Appendix B);
- Budget monitoring by Service Managers and Accountancy.

A summary of the overall budget including the latest changes is shown in **Appendix A**.

13.0 2018/19 Net Expenditure Estimate

13.1 The Medium Term forecast approved a year ago, by the Full Council on 23rd February 2017, showed a deficit, before savings targets, of £458k in 2018/19.

13.2 The table below provides a summary of the budget forecasts which have been reported to the Cabinet during the current financial year 2017/18:

(Deficit) / Surplus Forecasts			
Stage	**Cabinet**	**2017/18 £'000**	**2018/19 £'000**
Start of the year	21st Feb	(209)	**(458)**
Q1 Budget Monitoring	25th Jul	(258)	**(507)**
Q2 Budget Monitoring	14th Nov	90	**(383)**
1st draft budget report	19th Dec	776	**166**
Latest Forecast	20th Feb	976	**56**

13.3 The budget forecast for 2018/19 in **Appendix A** assumes a £5 Council Tax increase. The forecast shows a surplus of £56k but this is after savings and revised income.

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 0.58% in 2018/19 are currently forecast. Each ¼% movement is equivalent to +/- £120,000, of which approximately 75% or £90k impacts on the General Fund. Further details are included in the Annual Treasury Management and Annual Investment Strategy reports.

13.5 Budget Savings Proposals – a number of savings proposals and improved income opportunities were identified during the course of the year. Savings identified and delivered are included in the budget at **Appendix A**. A summary of the proposed savings for 2018/19 is included in **Appendix B**. A risk assessed provision for non-achievement for each proposal has been built into these savings proposals.

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; 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 £10k for each of the next 2 years to develop a Skills Action Plan. The case for this is set out in Appendix L.

13.7 Living Wage - The budget for 2018/19 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 £8.75 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 national 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 should the council face challenges in terms of balancing its budget.

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 allow capital receipts to be used for revenue expenditure on transformation projects which are designed to save money. This was extended for a further 3 years to March 2022 in the 19th December Local Government Finance Settlement.

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 the use of capital receipts for revenue purposes where such investment will lead to budget savings.

13.9 Council Tax Options – the draft budget assumes that the £5 Council Tax increase option is taken in 2018/19.

13.10 Strategy for funding the deficit –The Council's key response to tackling future budget deficits is driving through service efficiencies / improving productivity / maximising income growth across its services. Management will be developing proposals in 2018/19 across services to identify such efficiency/productivity/income gains in consultation with Portfolio holders. The programme aims to identify £1.3m per annum of savings or income growth by 2020/21. The Council will also continue to review how much it contributes to reserves and how they are used. Every effort will be made to avoid having to use reserves to support the budget as the reserves would be more effectively used on proposals that will produce ongoing revenue budget savings.

14.0 Medium Term Forecast - 2019/20 through to 2022/23

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 from that source. Our Business Rates Baseline is also announced 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. This has been made more difficult with the Council potentially becoming a 100% Business Rates Retention pilot in 2018/19. Predicting the future levels of Business rates income is also difficult due to uncertainty around appeals, 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:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Surplus / (Deficit) forecast after planned savings	56	(291)	(848)	(1,010)	(1,000)
Transformation Projects	(25)	(100)	(100)	(100)	(100)
Cease and Reduce	(25)	(53)	(53)	(53)	(53)
Total Savings target	**6**	**(444)**	**(1,001)**	**(1,163)**	**(1,153)**
Change on previous year – deficit (increase)/ decrease		(450)	(557)	(162)	10

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

The scale of the future forecast deficits and the need for significant IT investment means that work must continue in 2018 to deliver on the planned efficiency and income 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 future years means that delivering savings and income growth must continue to be a priority for the Council. This, however, will become progressively more difficult since the easier options have already been implemented.

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 and income quickly and at the same time planning for further savings in future years will be a 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 Finance & Performance Board and Overview and Performance Scrutiny Forum must continue to monitor 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 working balance is being maintained at £1.5m to recognise the range of risks the Council is currently exposed to. 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 working 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 Council's Transformation Programme. The table below shows the opening balance in the reserve as at 1st April 2017 and the currently approved or anticipated movements on the reserve:

Table – Budget Risk Reserve		
Balance b/fwd 1st Apr 2017		446
Transfer between reserves (net)		(75)
Movements/commitments:		
Further Land Charges costs	(7)	
Private Sector Stock Condition Survey	(26)	
Skills Action Plan	(5)	
2016/17 Carry Forward – Tidy Streets	(2)	
Domestic Homicide	(1)	
Kiosk Payment Terminals x 3	(40)	
IDOX buy-out of lease – repayment	69	
VR/VER's	(37)	(49)
Uncommitted Balance		**322**

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 2017 and the currently approved or anticipated movements on the reserve:

Table - Invest-to Save Reserve		
Balance b/fwd 1st Apr 2017		252
Movements/commitments:		
Car park improvements	(31)	
Treasury Management – MRP review	(4)	(35)
Transfer uncommitted balance to ICT Digital Innovation reserve		(217)
Reserve closed		**0**

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 2017 and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
Balance b/fwd 1st Apr 2017		**614**
Movements/commitments:		
Market Hall café	(66)	
Linacre Master Planning	(19)	
TPIC/DIC telephony system – rev	(24)	
HS2 Project Officer	(100)	
Northern Gateway	(85)	
Former QPSC – Business Case consultants	(35)	
Investors in People	(15)	

Budget Savings Delivery Fund (para 13.6)	(14)	
TPIC/DIC - 2016/17 Repayment	110	
Transfer to ICT Digital Innovation reserve	(116)	(364)
Uncommitted Balance		**250**

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. Contributions to the fund have been reviewed during 2017/18. A new ten-year plan is required in 2018/19 which then needs to be reviewed annually and contributions adjusted to reflect any significant changes.

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 2018 is £257k. Contributions to this fund and the items to be funded from it were reviewed during the year to ensure the fund is adequate to meet future commitments but not excessive.

16.9 **Insurance Fund (provision and reserve)** – The reserve is reviewed every three years. The level of these reserves is in line with the recommendations made in the last review in 2016/17.

16.10 **Transport Co Pensions** – an actuarial review of this fund was carried out as part of the 2016/17 year end process which recommended that the provision be increased by £300k. A £100k increase was actioned in 2016/17. It was originally proposed that the remaining £200k be financed by transferring balances from underspent reserves of £100k in both 2017/18 and 2018/19. However since the next actuarial review will not take place until 2022, it is proposed to top up the provision by £40k per annum for the next 5 years.

16.11 **ICT Digital Innovation Reserve** – It has been identified that significant investment in IT infrastructure and services is required over the next few years beginning in 2018/19 (£628k). This new reserve has been created to help finance these IT improvements in 2018/19 by reviewing the above earmarked reserves and transferring any excess balances to this new fund.

16.12 **Appendix H** shows that the total of all reserves and provisions are forecast to reduce by £1.0m from £10.5m at the start of 2017/18 to £9.5m by the end of the financial year.

16.13 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 2017/18 final accounts process.

17.0 Consultation

17.1 The consultation meeting with the business ratepayers' representatives took place on 1st February 2018. 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 10th January 2018. The Council Plan and budget were discussed and council tax increase options.

17.3 More details are provided in the notes from the two meetings which are included at Appendix M.

18.0 Scrutiny

18.1 The Overview and Performance Scrutiny Forum received budget updates on the budget setting process at its meeting on 28th November 2017.

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 2018/19 was published and approved by Parliament on 7th February 2018. This confirmed the forecast reduction in Revenue Support Grant as set out in the provisional Local Government Finance Settlement on 19th December 2017. The changes made to the New Homes Bonus grant system in February 2017 have also resulted in a significant drop in income for the Council. As described in para. 9.3 the system has undergone significant change. The estimated allocation for 2018/19 is £462k and in the MTFP it has been assumed that this will be stepped down to £307k in 2019/20 and to £3k by 2021/22.

- **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 savings through voluntary redundancy, restructuring, cost reduction, tendering and vacancy control, some of the individual 'cease and reduce' savings targets from 2017/18 have not been met; all for valid reasons. The Council learns from its experiences of what has and has not worked well in the past in order to improve its processes going forward. Future budget savings proposals are now focused on a number of larger saving proposals with member support rather than those delivering smaller savings. Delivering savings is also becoming increasingly difficult as the easier options are exhausted, which means that further improvements to the planning and estimating of savings is required.

- **Investment Interest** - The current Base Rate is 0.50% having been increased in 2017 by the Monetary Policy Committee by 0.25%. Further increases are expected to be gradual and small. The assumed gross rate of return on the Council's investment funds in 2018/19 is 0.58%. For each 0.25% that rates actually deviate from the forecast the investment return will increase or decrease by approximately £120k (75% or £90k to the General Fund). The forecast for 2019/20 assumes a return of 0.85%. Officers will continue to seek investment opportunities 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'.

- **Minimum Revenue Provision –** the Council's current MRP policy for all unsupported borrowing is based on the estimated economic life of the assets, with the maximum life of any of the Council's assets being 80 years. During December 2017 MHCLG consulted on proposed changes to their Guidance on Minimum Revenue Provision, which included capping the estimated economic life of an asset to 40 years for a building and 50 years for freehold land. Should this proposal be implemented an additional £40k in MRP will be required to be charged to the General Fund with effect from 2018/19.

- **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 2018/19 budget targets for the key income sources are shown in **Appendix F**. Car parking income on certain sites is under pressure due to location and competition, for example Saltergate multi-storey will be demolished and rebuilt as part of a significant £6m capital project in 2018/19. We have budgeted for a loss of £296k in income with 32% (£95k) displaced to our other car parks in 2018/19. The Winding Wheel will be undergoing a £0.5m refurbishment in the summer of 2018, which will include new catering/conferencing services to generate additional revenue. Plans have also been approved to invest £750k to build sports pitches on the old QPSC site and a small revenue will be generated from hiring these out.

- **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 as does demand for good rental property. The Council continues to invest in its rental properties in terms of: IT, broadband, repairs and maintenance etc. In 2018/19 the Council will also look at opportunities to acquire through PWLB borrowing, further property that has the prospect of generating a good commercial return.

- **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 national pay award of 2% has been proposed for 2018/19 but not yet agreed. Each 1% increases the costs to the General Fund by £140k. The budget estimates incorporate the 2% uplift for 2018/19 and future financial years.

- **Energy costs –** the gas and electricity budgets within the General Fund total £771k in 2018/19. Increases in future energy prices are very difficult to forecast. A 3.5% per annum increase has been assumed in 2018/19 and 3% in future years. We have also included an additional £50k per annum from expected cost pressure as gas and electricity prices are currently indicating 6% - 15% inflation. Each 1% variance from this provision equates to £7.71k 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 £383k (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.

- **Localisation of Business Rates -** Derbyshire Pool Authorities and Derby City Council have been successful in the December Local Government Finance Settlement in becoming one of the new 100% Business Rate Retention pilots for 2018/19. Using Local Government Finance Settlement changes to top ups and tariffs and our NNDR1 we are not yet certain on the financial implications. The Government has given a no detriment guarantee for 2018/19 and we are proposing to treat any gains above the expected Business Rates level as a windfall.

  The future of 'pooling' beyond 2018/19 is uncertain. The pool may continue as a pilot (the announcement of being a pilot was only for 2018/19) or revert back to its traditional pooling arrangements even though the Government is committed to all Authorities moving to 100% retention by 2020/21.

  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 2018/19 and future years. An update will be provided to the Council at the earliest opportunity as this risk develops**.**

- The new Rating List was 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 by all Councils 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 -** details of the new arrangements and the measures the Council has put in place since April 2013 to finance the local scheme are detailed in paragraphs 11.6 to 11.8. 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 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 was introduced 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 fully assess the likely financial implications other than the assumed 8% reduction in administration grant income in 2018/19. 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 2018/19 to manage the risks and any responsive 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 2019.

- **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 £2.6m SCR grant), Northern Gateway (supported by £5.5m SCR grant) and Peak Resort (supported by a £2.9m SCR grant). The Council is also providing an £840k guarantee for retail units as part of the Coop development over 5 years from 1 April 2018. In Autumn 2016, the Council began a £2.7m capital programme to refurbish the Town Hall, which will be completed in Autumn 2018. The £6m demolition and rebuilding of Saltergate car park will begin in February 2018. In respect of all the above capital schemes (and others referenced in paragraph 19.1(fees and charges income)), the Council will need to exercise competent project management and control to avoid cost overruns and/or delays to income generation.

- **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 (2016/17 outturn was £320k). 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 **48.0p** for 2018/19 (46.6p in 2017/18).
- 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 2018/19 is 1.3p giving a multiplier of **49.3p** (47.9p in 2017/18).

20.2 In his Autumn statement in November 2017 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 within a property with a rateable value of £12,000 and below will receive 100 per cent relief. Businesses within a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses nationally, occupiers of a third of all properties, will therefore pay no business rates at all. An additional 50,000 will benefit from tapered relief. The Government also intend to increase the threshold for the standard business-rates multiplier to a rateable value of £51,000, taking a further 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 2018/19, the grant is estimated to be £1,513k

- CPI - Business Rates will be inflated by CPI rather than RPI from 1 April 2018.
- Pubs - The £1,000 rates discount for pubs is to be extended for a further year into 2018/19.
- Discretionary Relief over 3 years – will continue into 2018/19 and 2019/20 as set out for each Authority to administer.

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 3.7% to £93.51 (£90.21 in 2017/18); &
- **Brimington Parish Council** – Band 'D' tax increased by 0.2% to £21.70 (£21.66 in 2017/18).

21.2 **Derbyshire County Council** has agreed on 7th February 2018 to increase its council tax by 4.99% to £1,272.12 (£1,211.66 in 2017/18).

21.3 **Derbyshire Police & Crime Commissioner** set the Constabulary's precept and council tax on 5th February 2018- the Band D tax will be £192.60, an increase of £12 (6.64%) (£180.60 in 2017/18).

21.4 **The Derbyshire Fire** and Rescue Authority set its precept and council tax on 14th February 2018 – the Band D tax will be £74.74 an increase of 2.98% (£72.58 in 2017/18).

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 estimate 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, allied to experienced staff and a robust approach to risk management should minimise the inherent risks and uncertainties in the forecasting process.

The achievement of the planned budget savings targets to address future year deficit forecasting presents a challenge for the Council. Having said this, the Council has a proven track record of delivering significant savings, for example;

- 2014/15 - from an original savings requirement of £347k to a revised surplus of £40k.
- 2015/16 – from an original savings requirement of £680k to a surplus of £225k.
- 2016/17 – from an original savings requirement of £1,266k to a surplus of £105k.
- 2017/18 – from an original savings requirement of £238k to an estimated surplus of £976k

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.

Further work will continue to establish the exact costs, and means of financing, the planned investments in ICT technology and digital innovation and robust project management arrangements put in place to ensure the timely and effective delivery of budget savings and/or income generation proposals.

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** also supports the minimum working balance being maintained at this level.

In addition to the Working Balance the Council could also use the £250k 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 and/or for transformation schemes which are designed to produce ongoing 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 2017/18 but are still considered adequate for 2018/19. Also, the position in future years will depend on the Council's success in delivering the required budget savings and surpluses.

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

25.0 Conclusions

25.1 2017/18 - at the start of the financial year our budget estimates indicated that the Council would need to make savings of £209k to produce a balanced budget. In the summer the Council was projecting a year end budget surplus of £90k but this improved to £776k by the end of 2017. Services continued to operate well in terms of income projections against budget (leisure centres, business units, theatre, winding wheel, planning, and some car parks) and costs were controlled. There have been no Voluntary Redundancies to date in 2017/18 but staffing costs have been controlled through the Vacancy Control Panel. The Derbyshire business rates pool is forecast to deliver £516k against a budget of £300k for 2017/18. The Council also changed its MRP policy in year in agreement with its auditors, reviewed repairs and maintenance spend, transferred commercial services profits from HRA to GF and retendered insurance costs; all delivering significant savings and/or new income. This enabled the budget to come into balance more quickly in 2017/18. The latest revised budget forecast shows that despite fewer savings on ‘cease and reduce’ activities, other activities have more than compensated, producing an estimated year end budget surplus of £976k.

25.2 2018/19 – The Council faces a reduction in its Settlement Funding Assessment (RSG/Business Rates Baseline) of £0.4m in 2018/19. To help offset these and other pressures there are plans to increase our income from Council Tax and service operations and to deliver future savings through efficiency / productivity plans; also potentially generating new income streams.

Significant IT investment over the rollout of digital innovation period is required to support ageing IT infrastructure at the Council beginning in 2018/19. The multi-million-pound costs have not yet been approved but will put significant revenue and capital costs pressures on future years' budgets.

The 2018/19 budget has 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 will provide an additional £11k above the 2.99% 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 planned savings to avoid a budget deficit in 2018/19.

Although the Council has a track record of delivering savings, the challenge of implementing savings on this scale and within tight timescales 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 from 2019/20 and the fact that reserves are declining and can only be used once, the aim must be to make the required savings and/or generate new income within the financial year. Based on the current savings planned forecasts, the Council should be able to deliver a balanced budget in 2018/19.

25.3 <u>Medium term</u> – The General Fund forecasts for future years remain challenging, getting progressively worse in 2020/21 due to ongoing cuts in Government funding, inflationary cost increases and the loss of NHB. There is, however, an expectation that the Council may be able to increase our Business Rates tax base if the 100% Business Rates Retention pilot is successful and continues beyond 2018/19. This is tempered by economic risks and the fact we will carry 100% of business rate losses in the pilot. 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.

25.4 Further growth in income will be important from our 'trading activities' i.e. venues, leisure, car parking, planning, industrial and commercial assets etc. We could also look at introducing new fees and charges to raise income. Cost control and cost reduction (Voluntary Redundancy) will remain core to managing our costs base. In addition to the significant 10 year planned investments in IT infrastructure and digital innovation, some of our operational and non-operational assets are also in need of repair and maintenance. The costs of meeting this expenditure remain to be quantified but will be equally significant.

25.5 Effective arrangements will therefore 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 in readiness for later years. Over the five-year period of the Medium Term Financial Plan recurring savings of £1.2m must be delivered.

25.6 The medium term forecast shows that the Council continues to face financial challenges in the years ahead and all the indications are that this is likely to continue over the longer term, through to and beyond 2022. The Council has a very good track record of delivering budget savings and income growth but the task is becoming increasingly difficult and whilst every effort will be made to avoid such a situation, the Council may 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 It is within the gift of the Council to propose alternative budget allocations and/or council tax level.

27.0 Recommendations

Cabinet recommends to Council that it:

27.1 Approves the revised budget for 2017/18 (Section 5).

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

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

27.4 Approves the portfolio budgets and the overall revenue budget summary for 2018/19 (Section 13 and Appendix A).

27.5 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).

27.6 Notes the budget forecasts for 2019/20 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

27.7 Approves the growth request of £10k for each of the next two years to enable implementation of the Council's Skills Action Plan (para 13.6).

27.8 Approves the estimates of reserves including:

a) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).
b) The phasing of the recommended £200k insurance provision increase over 5 years (para 16.10).
c) The creation of an ICT Digital Innovation reserve to fund the cost of ICT development (para 16.11).

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

27.10 Increases the Council's share of Council Tax by £5 for a Band 'D' property in 2018/19.

27.11 Approves the 2018/19 Council Tax Requirement and financing (Appendix J).

27.12 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 ensure value for money services.

Document information

Report author	**Contact number/email**
Kevin Hanlon	Kevin.hanlon@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	

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
Appendix L	Growth Requests
Appendix M(1) & M(2)	Notes from Consultation Meetings